

Prime Minister

~~MR. COLES~~

~~MR. INGHAM~~

I have not seen Dr. Cotterill's paper and do not know how embarrassing it might be.

Would you like Bernard to have a copy in case questions are asked?

Yes please A.J.C. 5/1

Lord Thomas rang this evening to say that a paper by Dr. Elizabeth Cotterill of the Centre for Policy Studies about her visit to the Far East was being published in a West German newspaper. He was not sure how they had obtained Dr. Cotterill's paper but given the close connection of the CPS with the Conservative Party some embarrassment might be caused. The Prime Minister has seen Dr. Cotterill's paper (so Lord Thomas told me) and of course she helped the Prime Minister with her recent speech on women in public life. I leave it to you to decide whether there is anything which needs to be done about this.

Tim Flesher

Caroline

Can you get a copy for me and for Bernard?

Tim

To see.

It's on its way. A.J.C. 6/1

A.J.C. 6/1

30 December 1982

This report is based on interviews and conversations with a wide variety of individuals and groups in Hong Kong.

The people of Hong Kong are increasingly nervous about their future - the "1997" question". This nervousness, growing over the last few years, has accelerated in the last few months. It has been fostered by various causes.

1 The cumulative effects of growing contacts with China, (since the 1979 opening up) which have both made China more important as a market to businessmen in Hong Kong and made Hong Kong much more aware of China's importance in its future.

2 Ambiguous statements of intent from Peking on the colony's future.

3 Reports brought back by Chinese businessmen invited to Peking for consultation on this matter.

4 Some actions of the Hong Kong government which have been interpreted as "selling-out" to Peking. A notable example was the sale by the government to the Bank of China of a site in the middle of Hong Kong for a new headquarters, thought by Hong Kong people to have been sold at a give-away price.

(See interview with J.H. Brembridge appended for government version of this)

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5 A feeling that the UK is distancing herself from Hong Kong. They were deeply hurt by the Nationality Act and the action on students' fees. Most people felt that Hong Kong should have been treated differently and they find it difficult to appreciate rational arguments on these matters.

The District Boards set up by Sir Murray McLhose, as a measure of self-government, were also taken by some as a sign that London was saying "Look after yourselves."

6 Coupled with this is an apparent lack of interest and activity from London, compared with all the activity from Peking. There is also a feeling that Britain is very ignorant about Hong Kong, whereas China is making efforts to become informed.

All these things are taken as signs that the UK is not wholehearted about maintaining the status quo.

The Hong Kong criticism is of the Foreign Office, not of the British government, but the comment of the Deputy Political Adviser was:

"British preoccupation with the Falklands has meant no Prime Ministerial steer which would have fed into China."

7 The Falklands.

In one way this has caused great hope because of the sacrifice made by the UK to fulfill the wishes of the people of the Falklands. The question asked is "Would Britain do that for Hong Kong?"

Conversely, there is some concern that insistence on the British sovereignty of Hong Kong will be a stumbling-block to agreement with China.

8 At this sensitive moment, the new Governor has made himself unpopular with the Hong Kong Chinese for several reasons. First, he is thought to be more concerned with British-Chinese relations than with what is best for Hong Kong.

The Governnor's most recent error in the eyes of Hong Kong is his choice of the deputation from the Legislative Council to come to London. They are thought to be the most undistinguished of an undistinguished body. There is some concern that none of them is from the New Territories.

9 At the time of writing, Hong Kong's concerns and hopes are focussing on the Prime Minister's visit to China. They expect much from this, and seem to ignore other matters of state that the Prime Minister has to discuss. Their feeling of trust and confidence placed in the Prime Minister by all classes cannot be overstressed. By common consent, the present Prime Minister is more respected in Hong Kong than any of her predecessors. The respect in which she is held in Peking for her strength and toughness are well-known in Hong Kong and it is emphasised that these are the qualities which Hong Kongers urge that she should display in Peking.

Even the economic decline of Hong Kong has paused in expectation of the Prime Minister's visit. If nothing comes out of that visit to restore Hong Kong's confidence that decline is liable to become irreversible.

The present economic decline of Hong Kong.

How far is it due to fears about 1997?

This is difficult to estimate. Obviously other factors, like world recession, the financial troubles of the USA and the growth of protection throughout the world have also contributed to the decline.

1 Overseas investors are not prepared to make long-term industrial investments unless they have a clearer picture of Hong Kong's future. This investment is needed for Hong Kong to move into more specialised high-quality products and into capital and technology-intensive industries. Hong Kong is already behind Singapore and Taiwan in electronics. Both European and American investment in Hong Kong is slipping.

2 Some local investors are already channelling their investment into neighbouring territories, such as China, Singapore, Malaysia, Philippines, Indonesia, etc. Hard evidence of this was provided by a survey conducted last year by the Federation of Hong Kong industries. The results of this were kept under wraps lest they should further disturb confidence in Hong Kong.

3 This is the first year that investment in this sphere has dropped so sharply so that old machinery in the textile industry is not being replaced; an industry which needs to become much more capital-intensive if it is to continue to compete in a hard world, is marking time. Much of the continuing investment in local industry there still is short-term.

4 While Hong Kong investors, especially property investors, have always diversified their interests overseas, fear of 1997 has perceptibly accelerated this trend.

5 There is a lack of long-term investment in human resources, in industrial training and education. Bright people are moving out of Hong Kong and the only people coming in are those hoping to do business with China. It is estimated that if the status quo changed in Hong Kong the top 100,000 - who set the tone - would leave. This drift is already under way.

6 Hong Kong's importance as the centre of trade and commerce for South East Asia is falling because Singapore is seen as free from longer-term problems of identity and sovereignty.

Because, if the confidence needed to produce an upturn is to be restored, this year is critical. Next year could be too late, after irreversible processes had been set in motion. Thus Hong Kong is standing still, possibly regressing.

There is universal agreement that what the people of Hong Kong want is the maintenance of British administration and jurisdiction.

This was shown eg in a poll conducted by the Hong Kong Observers when 87% of those asked voted for the retention of British administration.

Public opinion in Hong Kong hopes that the wishes of the Hong Kong people will be the prime concern of the UK government in negotiations with China, At present, widespread fear exists that the Foreign Office attitude, which sees British/Chinese relations as paramount will prevail over the wishes and well being of the 5 million people who have chosen to live under the Union Jack.

But while the people of Hong Kong want the retention of British administration they are content and indeed willing (because most of them are Chinese), to cede the sovereignty to China whatever this means. At all events, they want an agreement that separates sovereignty and jurisdiction.

Hong Kong is obviously far more important economically to China than to the UK. The concern is a) whether China realises this and b) whether China realises that Hong Kong's economic success depends on her British administration.

There is considerable evidence for a) eg the fact that the Bank of China recently admitted in Hong Kong that China is earning 25% of her foreign exchange from Hong Kong. It is in fact between 35-40% but it is significant that they admitted even this much. Moreover a Bank of China official appeared on Hong Kong television telling people not to worry about the future. This is a most unusual and positive step for China to take.

It is a fact that in the week beginning 16th August, when the US \$ was very strong and the Hong Kong \$ very weak, the Bank of China sold US dollars to help the Hong Kong dollar.

And it is a well-founded speculation that China even has an emergency plan to support the Hong Kong Stock Exchange in a dire emergency.

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Whether China also realises how much Hong Kong's prosperity depends on her British administration is another matter. Some of the businessmen who went to Peking got the impression that China felt that she could run Hong Kong. That in itself frightened the market. Representatives of the Hong Kong Federation of Industries are said to have told the Chinese that they would leave Hong Kong if the British administration ceased.

The supposition that China could run Hong Kong is being tested in the Special Economic Zone just across the border in Canton Province. Its performance - which is closely monitored - so far does not inspire confidence in the future of Hong Kong under a similar administration. But this has not been brought home to the Chinese, for obvious reasons.

It is therefore important for the UK to stress in her negotiations with China how much China needs Hong Kong, in its present form. She should equally stress that Britain barely needs it and that the British reasons for wishing to maintain the status quo in Hong Kong are basically unselfish ones, the good of Hong Kong, South East Asia and indeed China, the need for a South East Asian meeting point, as well as our moral responsibility for the 6 million people there.

The Chinese do not seem to have grasped this - as seen from Hong Kong. It is feared that if China thinks that the UK is very keen to keep Hong Kong she might well make negotiations more difficult and lay down unacceptable conditions. If she sees that Britain is reconciled to "losing" Hong Kong at worst, this may bring her up short.

I summarise views expressed in Hong Kong, both proposals for future status and comments on the proposals by others.

1 That it be administered by China as a Special Economic Zone.

Comment: the poor progress of China's existing Special Economic Zones throws doubt on this idea.

2 That it become a special administrative area of China, a capitalist enclave within the Communist system, administered by China.

Comment: even if China could administer Hong Kong, confidence would be withdrawn well in advance of the operation, because of her past economic record and continued political uncertainty. Moreover Chinese law would throw Hong Kong into confusion; Chinese law is not suitable to a modern commercial society.

3 That Hong Kong becomes independent.

Comment: there is no evidence that Hong Kong people want this: China would not accept it. Hong Kong people are nervous of politics and not impressed by the democracies which they see around them.

4 The Macau solution.

Comment: the Chinese did not really want Macau and therefore reached agreement, but only because Portugal also claimed not to want it. The China/Portugal treaty says two different things in the two languages. Portugal does not have absolute authority in Macau.

There is general agreement in Hong Kong that its continuing prosperity and stability depend on the maintenance of British administration and law. There is also agreement that the sovereignty rightly belongs to China, as Chinese leaders since Sun-Yat-Sen have claimed. Hong Kong people feel therefore that a joint agreement on Hong Kong's future would need British recognition of a fully autonomous British administration. De jure sovereignty for China, to appease their national pride and de facto rule for Britain, to ensure future prosperity for Hong Kong and China's best present interests.

Suggestions made in Hong Kong about how this compromise might precisely be achieved were:

1 By a new lease of all Hong Kong, ie Crown Colony and the New Territories, whether from 1997 or from now, for about 50 years; this was felt to be the minimum time necessary for the maintenance of Hong Kong's confidence and prosperity. This lease would acknowledge Chinese sovereignty.

2 It was further suggested that under this lease China, the landlord, could give notice to the UK, the tenant, at any time, but the notice would be for a definite term of years, say 15.

Precedents for the separation of sovereignty and jurisdiction are being widely cited there.

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3 It was suggested, most notably by the Heung Yee Kuk, the New Territories Council, that the necessity for a treaty might be avoided if a significant joint venture between China and Hong Kong were announced, showing that both sides had confidence in the continuation of Hong Kong in its present form. Projects suggested for this venture were a new airport on the China/Hong Kong border (there are well known counter-arguments), or Hong Kong's proposed Nuclear Power Station. Yet the existing China/Hong Kong joint venture of a new town in the New Territories was rarely mentioned.

4 It was widely felt that there would be an immediate restoration of confidence in Hong Kong if a joint statement of Chinese/British friendship, containing a public mutual expression of good intentions towards Hong Kong, and perhaps announcing that talks on the subject would be going on, were made during the Prime Minister's visit.

Here is a rough draft of the sort of thing that people have suggested:

"....today had helpful positive talks on the future of Hong Kong. China and Britain are agreed that they both wish to see a continuing prosperous Hong Kong, that it should continue a free port and a financial centre of importance.

It was further agreed that talks should start soon to consider ways and means of achieving this mutually desired aim."

Elizabeth Cottrell

3 September 1982

INTERVIEWS, HONG KONG, 23 - 29 AUGUST 1982

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|----|--|---|
| 1 | Richard Margolis | Deputy Political Adviser |
| 2 | Wu Hon Fai & members of
of the Stock Exchanges | President Chinese Gold & Silver
Exchange Society. Chairman of
the Stock Exchange of Hong Kong Ltd
- the unified exchange of the
4 stock exchanges in Hong Kong. |
| 3 | Sir Philip Haddon-Cave | Chief Secretary, Government
Secreteriat |
| 4 | J. McGregor | Executive Director, Hong Kong
General Chamber of Commerce |
| 5 | Q.W. Lee | Vice-Chairman and General Manager
of Hang Seng Bank Ltd |
| 6 | E.Q. Launder | Chief Executive of Wadley Merchant
Bankers |
| 7 | M.G.R. Sandberg | Chairman, Hongkong & Shanghai Bank |
| 8 | P.J. Wrangham | General Manager, Hongkong &
Shanghai Bank |
| 9 | Cecil Chan | Executive Director, Federation
of Hong Kong Industries |
| 10 | Justin Yue | Acting Director of Trade |
| 11 | Burton Levin | US Consul General |
| 12 | John Pain | Executive Director, Hong Kong Touris
Association |
| 13 | Hon J.H. Brembridge | Financial Secretary, Government
Secreteriat |
| 14 | Lau Wong Fatt and
members of the Heung
Yee Kuk | Chairman of New Territories,
Heung Yee Kuk |
| 15 | Cha Cha Ming & Dr James
Wong | Chairman and Managing Director
of the China Dyeing Works Ltd. |

plus social meetings with other groups of businessmen, journalists, etc

H. G. King
June



10 DOWNING STREET

Mr. Coghlan

Here is
Dr. Caldwell's
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