

Hong Kong  
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TO PRIORITY FCO

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INFO PRIORITY PEKING (PERSONAL FOR AMBASSADOR)

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MIPT: FUTURE OF HONG KONG: STRATEGY FOR SUBSTANTIVE TALKS.

1. FOLLOWING IS TEXT OF OUR REVISED DRAFT PRESENTATION.

#### INTRODUCTION

IN THREE DECADES HONG KONG HAS DEVELOPED FROM AN ENTREPOT AND COMMERCIAL CENTRE, TO A MAJOR LIGHT MANUFACTURING CENTRE (DOMESTIC EXPORTS ACCOUNTING FOR 65 PER CENT OF TOTAL EXPORTS), AND THEN TO A DIVERSIFIED ECONOMY WITH AN INTERNATIONAL DIMENSION (THE FINANCIAL AND ALLIED SERVICES SECTOR ACCOUNTING FOR ABOUT A QUARTER OF THE GDP, I.E. AS MUCH AS THE MANUFACTURING SECTOR). THE HONG KONG ECONOMY HAS BECOME INCREASINGLY EXTERNALLY ORIENTED: AND WITH THE GROWTH OF THE MONEY AND FOREIGN EXCHANGE MARKETS IT HAS BECOME EVEN MORE SENSITIVE THAN HITHERTO TO INTERNATIONAL AS WELL AS DOMESTIC INFLUENCES.

#### INHERENT ADVANTAGES

2. UNDERLYING THIS DEVELOPMENT HAVE BEEN CERTAIN ADVANTAGES -

(A) HONG KONG'S GEOGRAPHICAL POSITION:

(B) THE BIGGEST (AND ONLY DEEPWATER) PORT IN SOUTH CHINA, WITH SHIPPING, CARGO AND CONTAINER HANDLING SERVICES TO MATCH, COMPLEMENTED BY AN INTERNATIONAL AIRPORT WITH MAJOR AIRCRAFT ENGINEERING FACILITIES AND A DEVELOPED INTERNATIONAL TELECOMMUNICATIONS NETWORK:

(C) THE PROXIMITY OF DEPENDABLE SOURCES OF BASIC FOODSTUFFS, RAW MATERIALS AND CONSUMER GOODS FOR LOCAL CONSUMPTION, AND THE AVAILABILITY OF A SUPPLEMENTARY WATER SUPPLY FROM CHINA AND A RELIABLE SUPPLY OF SEMI-FINISHED INPUTS FROM JAPAN:

(D) A FLEXIBLE, MOBILE, WELL TRAINED, HIGHLY MOTIVATED AND HIGHLY PRODUCTIVE LABOUR FORCE:

(E) RESOURCEFUL ENTREPRENEURS, WHO AMORTISE THEIR CAPITAL INVESTMENTS OVER THE ECONOMIC LIFE OF THE ASSETS CONCERNED, WHO SEEK TO UTILISE CAPITAL INVESTED AS EFFICIENTLY AS POSSIBLE, AND WHO HAVE THE COURAGE TO ADOPT NEW PROCESSES AND EQUIPMENT:

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(F) A LARGE AND SKILLED PROFESSIONAL AND MANAGERIAL CLASS, WITH A HIGH LEVEL OF EDUCATION AND LINGUISTIC ABILITY. MANY MEMBERS OF THIS CLASS HAVE BEEN EDUCATED ABROAD AND HAVE MAINTAINED THEIR LINKS WITH THE COUNTRIES IN WHICH THEY WERE TRAINED:

(G) EXCELLENT WORLD-WIDE MARKETING ARRANGEMENT ON WHICH HONG KONG'S EXPORT-ORIENTED MANUFACTURING SECTOR DEPENDS.

FAVOURABLE FACTORS

3. THE NATURAL AND HUMAN ADVANTAGES WHICH THE TERRITORY ENJOYS ARE NOT SUFFICIENT IN THEMSELVES TO ACCOUNT FOR ITS DEVELOPMENT, WHICH COULD NOT HAVE BEEN ACHIEVED WITHOUT:-

(A) A COOPERATIVE RELATIONSHIP WITH THE PEOPLE'S REPUBLIC OF CHINA, BASED ON MUTUAL BENEFIT:

(B) MOST-FAVOURABLE-NATION (MFN) RIGHTS OF ACCESS TO MAJOR FOREIGN MARKETS AND RESTRAINT AGREEMENTS NEGOTIATED UNDER THE MULTI-FIBRE ARRANGEMENT (MFA):

(C) A FISCAL AND SOCIAL ENVIRONMENT ENCOURAGING ENTERPRISE, HUMAN ENDEAVOUR, AND THE SPREAD OF PROSPERITY:

(D) FREEDOM OF MOVEMENT, FREEDOM OF EXPRESSION, FREE CHOICE OF CAREER AND OCCUPATION, AND A FAMILIAR LIFE STYLE:

(E) INTERNAL POLITICAL STABILITY:

(F) CONTINUITY OF POLICY, IMPLEMENTED BY AN IMPARTIAL CIVIL SERVICE.

4. BUT THE MAINTENANCE OF (C), (D), (E) AND (F) ABOVE REQUIRES -

(I) CONSISTENT AND PREDICTABLE ADMINISTRATION:

(II) A KNOWN AND WELL DEVELOPED SYSTEM OF LAW WHOSE PRACTICE IS INTERNATIONALLY ACCEPTED AND UNDERSTOOD, BACKED UP BY

(III) THE IMPARTIAL ADMINISTRATION OF THE LAW THROUGH AN INDEPENDENT JUDICIARY:

(IV) BUDGETARY POLICIES AND A TAX REGIME WHICH ENCOURAGE BUSINESS ENTERPRISE AND FOSTER DOMESTIC AND INTERNATIONAL INVESTMENT:

(V) A CAREFULLY MANAGED MONETARY SYSTEM AND A CURRENCY WHICH IS FULLY BACKED WITH FOREIGN EXCHANGE ASSETS, FREELY CONVERTIBLE AND INTERNATIONALLY ACCEPTED AND TRADED:

(VI) AN EDUCATION SYSTEM GEARED TO PROVIDING THE MANAGERIAL, PROFESSIONAL AND TECHNICAL SKILLS REQUIRED AT ALL LEVELS.

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THE BASIS OF CONFIDENCE

5. HONG KONG WOULD RETAIN ITS NATURAL GEOGRAPHICAL ADVANTAGES WHATEVER ITS CONSTITUTIONAL STATUS OR FORM OF GOVERNMENT. BUT HONG KONG COULD NOT PRESERVE ITS PRESENT LEVEL OF PROSPERITY AND STABILITY IF THERE WERE A WITHDRAWAL OF INVESTMENT AND SKILLS, A LOSS OF HONG KONG'S RIGHTS OF ACCESS TO OVERSEAS MARKETS OR DOUBTS ABOUT THE CONVERTIBILITY AND VALUE OF THE HONG KONG DOLLAR OR THE CONTINUITY OF THE LEGAL SYSTEM.

6. THE HUMAN AND CAPITAL RESOURCES WHICH ARE ESSENTIAL TO HONG KONG'S SUCCESS ARE HIGHLY MOBILE. HONG KONG PLACES NO RESTRICTIONS UPON THE MOVEMENT OF CAPITAL. DOMESTIC AND INTERNATIONAL INVESTORS COULD AND WOULD SEEK TO LIQUIDATE THEIR ASSETS AND TRANSFER THE PROCEEDS AND CAPITAL EQUIPMENT OVERSEAS IF THERE WAS SERIOUS DOUBT ABOUT THE MAINTENANCE OF THE PRESENT BUSINESS ENVIRONMENT. PROFESSIONALLY QUALIFIED PEOPLE, WHETHER OF OVERSEAS OR HONG KONG ORIGIN POSSESS SKILLS WHICH ARE EASILY MARKETABLE ELSEWHERE. MANY OF THEM WILL REMAIN IN HONG KONG ONLY SO LONG AS THEY SEE NO THREAT TO THE PRESENT SOCIAL, LEGAL AND BUSINESS ENVIRONMENT, AND HENCE TO THE OPPORTUNITIES AVAILABLE TO THEM AND THE LIFESTYLE WHICH THEY NOW ENJOY.

7. BOTH DOMESTIC AND INTERNATIONAL INVESTORS AND THOSE WHOSE SKILLS ARE ESSENTIAL TO HONG KONG THEREFORE REQUIRE SOME GUARANTEE THAT THERE WILL BE NO FUNDAMENTAL CHANGE IN THE SYSTEMS IN FORCE OR IN THE POLICIES PURSUED. OTHERWISE, THERE WILL BE NO CONFIDENCE AND THEY WILL LEAVE.

8. IT HAS BEEN SUGGESTED THAT SUFFICIENT GUARANTEE WILL BE PROVIDED BY APPROPRIATE PROVISIONS IN THE CONSTITUTION OF THE PEOPLE'S REPUBLIC OF CHINA. THE DIFFICULTY FOR HONG KONG PEOPLE IS THAT IT IS NOT EASY TO SEE HOW A LIBERAL, CAPITALIST SYSTEM CAN SUCCESSFULLY EXIST WITHIN A COUNTRY OPERATING A SOCIALIST SYSTEM. THEY WOULD NEED TO SEE A LONG PERIOD OF STABILITY AND SUSTAINED ECONOMIC PROGRESS IN CHINA BEFORE THEY MIGHT OVERCOME THE GRAVE RESERVATIONS WHICH THEY HAVE TODAY ABOUT A FUTURE UNDER THE ULTIMATE AUTHORITY OF A SOCIALIST ADMINISTRATION. THESE DOUBTS ARE REINFORCED BY RECENT CHINESE HISTORY, AND IN PARTICULAR THE MEMORIES OF SOME HONG KONG INDUSTRIALISTS OF EVENTS IN SHANGHAI, AND THE EXPERIENCE OF THE CULTURAL REVOLUTION.

9. SO IF HONG KONG IS TO RETAIN INVESTMENTS AND THE SKILLED PROFESSIONALS ESSENTIAL TO ITS ECONOMY, SOME MEANS MUST BE FOUND TO SHOW THAT THE TERRITORY WILL CONTINUE TO BE INSULATED FROM THE EFFECTS OF POLITICAL CHANGES ELSEWHERE. AT PRESENT THIS INSULATION IS PROVIDED BY THE LINK WITH THE UK WHERE SIMILAR SYSTEMS AND POLICIES ARE IN FORCE, AND BY LONG EXPERIENCE OF RESPECT FOR HONG KONG'S INTERNAL AUTONOMY. OTHER FORMS OF INSULATION HAVE BEEN SUGGESTED, FOR EXAMPLE INDEPENDENCE OR UN TRUSTEESHIP, BUT IT IS CLEAR THAT THESE WOULD NOT BE ACCEPTABLE TO CHINA. THE OBVIOUS SOLUTION IS THEREFORE TO MAINTAIN THE EXISTING MEANS OF INSULATION WHICH HAS PROVED EFFECTIVE AND IS KNOWN AND ACCEPTED BY THE PEOPLE OF HONG KONG.

10. THUS THE LINK WITH THE UK ACTS AS A GUARANTEE AGAINST FUNDAMENTAL CHANGE, AND AS A MEANS OF PRESERVING CONFIDENCE. IT IS ALSO THE SOURCE OF COMMERCIAL AND OTHER RIGHTS, ESSENTIAL TO HONG KONG'S ECONOMY WHICH WOULD BE LOST IF THE LINK WERE BROKEN. THIS CAN BE ILLUSTRATED BY A NUMBER OF EXAMPLES -

(A) CURRENCY AND CONVERTIBILITY

AN INDEPENDENT AND CONVERTIBLE HONG KONG DOLLAR IS ESSENTIAL TO THE MAINTENANCE OF THE EXTERNALLY ORIENTED ECONOMY OF HONG KONG. THE OWNERSHIP AND CONTROL OF HONG KONG'S FOREIGN EXCHANGE ASSETS LIES IN HONG KONG NOT IN THE UK. BUT THE INDEPENDENCE AND CONVERTIBILITY OF THE HONG KONG DOLLAR ARE TAKEN FOR GRANTED, PARTLY BECAUSE IT IS MANAGED BY A GOVERNMENT IN HONG KONG DEDICATED TO FREE MARKET PRINCIPLES AND TO THE FREEDOM OF FINANCIAL FLOWS WITHIN THE INTERNATIONAL SYSTEM; AND PARTLY BECAUSE THE FINAL AUTHORITY IN THESE (AND ALL OTHER) MATTERS IN HONG KONG LIES WITH THE UK WHICH IS ITSELF FULLY INTEGRATED INTO THE INTERNATIONAL OPEN TRADING AND FINANCIAL SYSTEMS. THERE WOULD BE NO CONFIDENCE IN THE CONTINUED INDEPENDENCE AND CONVERTIBILITY OF THE HONG KONG DOLLAR IF THE ULTIMATE AUTHORITY RESTED WITH A GOVERNMENT DEDICATED TO A FULLY MANAGED ECONOMY AND WITH NO EXPERIENCE OF A CONVERTIBLE CURRENCY:

(B) INTERNATIONAL TRADE

HONG KONG DERIVES ITS OPEN ACCESS TO ITS MAIN MARKETS, IN PARTICULAR THE UNITED STATES AND EUROPE, FROM THE UK'S MEMBERSHIP OF THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT). THE ULTIMATE GUARANTEE TO OTHER GATT MEMBERS THAT GATT RULES WILL APPLY IN HONG KONG IS THE ACCEPTANCE OF THESE RULES BY THE UK. THIS GUARANTEE WOULD BE REMOVED IF RESPONSIBILITY FOR HONG KONG LAY WITH CHINA, WHICH OPERATES A STATE MANAGED ECONOMY (AND WHICH IS NOT A MEMBER OF THE GATT). AGREEMENTS WITH HONG KONG'S MAIN TRADING PARTNERS WHICH ARE CLOSELY LINKED TO THE GATT AND WHICH APPLY TO A LARGE PROPORTION OF HONG KONG'S EXPORTS WOULD HAVE TO BE RENEGOTIATED IF THE LINK WITH THE UK WERE SEVERED. IT IS DIFFICULT TO SEE HOW HONG KONG'S TRADING PARTNERS WOULD AGREE TO HONG KONG RETAINING QUOTAS SEPARATE FROM AND ADDITIONAL TO THOSE OF CHINA IF THIS LINK WERE BROKEN:

(C) THE LEGAL SYSTEM

THE LAWS OF HONG KONG ARE BASED ON BRITISH COMMON AND STATUTE LAW, AND THE PROGRESSIVE INTERPRETATION OF THAT LAW BY COURTS IN THE UK IS ONE OF THE MAIN BASES ON WHICH THE LAW IN HONG KONG IS ADMINISTERED. THIS IS A SITUATION WELL UNDERSTOOD AND RELIED UPON BY THE INTERNATIONAL COMMUNITY TRADING IN AND INVESTING IN HONG KONG. THE JUDICIARY IS INDEPENDENT OF THE EXECUTIVE. THE GUARANTEE OF THE CONTINUED OPERATION OF THIS LEGAL SYSTEM IS THE LINK WITH THE UK WHERE THE SEPARATION OF THE JUDICIARY AND THE EXECUTIVE AND THE SAME

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SYSTEM OF LAW HAVE BEEN IN FORCE FOR MANY CENTURIES. THE POLICE FORCE ARE TRAINED TO OPERATE WITHIN THE FRAMEWORK OF THE BRITISH LEGAL SYSTEM. THE CONFIDENCE WHICH THIS GIVES THAT THE BRITISH CONCEPT OF LAW WILL PREVAIL WOULD NOT BE MAINTAINED IF THE LINK WAS WITH CHINA WHICH HAS A COMPLETELY DIFFERENT CONCEPT AND SYSTEM OF LAW, AND ONE WHICH, IN MANY AREAS IMPORTANT FOR HONG KONG, IS STILL BEING DEVELOPED:

(D) THE JURISDICTIONAL LINK

SINCE IN THE CASE OF HONG KONG THE GUARANTEE CANNOT BE FOUNDED ON THE POLICIES OF AN INDEPENDENT GOVERNMENT (AS IN THE CASE OF SINGAPORE) IT MUST BE PROVIDED IN ANOTHER WAY. THE ULTIMATE GUARANTEE THAT THE POLITICAL, ECONOMIC AND SOCIAL SYSTEMS IN HONG KONG WILL NOT DIVERGE FROM THEIR PRESENT FORM IN ANY SUBSTANTIAL WAY HAS BEEN THAT FINAL AUTHORITY LIES, THROUGH THE GOVERNOR, WITH HER MAJESTY'S GOVERNMENT IN THE UNITED KINGDOM WHERE SIMILAR SYSTEMS EXIST.

CONCLUSION

11. THE FOREGOING REPRESENTS ONLY A VERY BRIEF AND GENERAL PICTURE OF THE WAY IN WHICH THE LINK BETWEEN HONG KONG AND THE UK PRESENTLY OPERATES. THIS LINK, AND THE BRITISH ROLE IN THE ADMINISTRATION OF THE TERRITORY, AT PRESENT PROVIDE A GUARANTEE AGAINST FUNDAMENTAL CHANGE IN THE SYSTEM AND POLICIES PURSUED IN HONG KONG. WE PROPOSE IN SUBSEQUENT MEETINGS TO ENLARGE ON THESE ASPECTS OF THE ADMINISTRATIVE STATUS QUO IN HONG KONG, AND IN PARTICULAR ON THE FINANCIAL, FISCAL AND LEGAL SYSTEMS AND THE FABRIC OF AGREEMENT ON WHICH HONG KONG'S ROLE AS A FINANCIAL AND COMMERCIAL CENTRE DEPENDS. OUR OBJECTIVE WILL BE TO ILLUSTRATE OUR VIEW OF HOW THE AGREED COMMON AIM OF MAINTAINING THE STABILITY AND PROSPERITY OF HONG KONG CAN BE ACHIEVED.

Yours

FUTURE OF HONG KONG

LIMITED

HD/HKGD

HD/FED

HD/PLANNING STAFF

HD/POSD

PS

PS/MR HURD

PS/LORD BELSTEAD

PS/PUS

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