

SECRET

DESBKY 261200Z (BOTH)

FROM PEKING 261130Z JUL 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 718 OF 26/7/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG

## FUTURE OF HONG KONG: SECOND PLENARY SESSION: SECOND MEETING

1. I SPOKE FIRST AT TODAY'S MEETING BEGINNING WITH CONSIDERED COMMENTS ON THE STATEMENT YAO GUANG MADE YESTERDAY.

I MADE THE FOLLOWING POINTS:

(A) REFERRING TO YAO'S REMARK THAT WE SHOULD DECIDE QUICKLY TO RETURN BOTH SOVEREIGNTY AND ADMINISTRATION TO CHINA IN 1997, I REHEARSED OUR POSITION, QUOTING THE RELEVANT PASSAGE FROM THE PRIME MINISTER'S LETTER TO ZHAO ZIYANG, AND STRESSING THAT ON THE QUESTION OF ADMINISTRATION WE SHOULD AIM TO REACH CONCLUSIONS ON THE BASIS OF AN OBJECTIVE EXAMINATION OF THE FACTS.

(B) ON THE MATTER OF WHAT THE DIFFERENCE WOULD BE BETWEEN POST-1997 AND PRE-1997 (YAO'S POINT AT PARA 2(C) IN MY TEL NO 710) I EXPLAINED THAT, SUBJECT TO THE APPROVAL OF THE BRITISH PARLIAMENT, CHINESE SOVEREIGNTY OVER THE WHOLE OF HONG KONG WOULD BE ACCEPTED BY THE BRITISH GOVERNMENT AND NO DOUBT BY THE INTERNATIONAL COMMUNITY. AT THE SAME TIME CONTINUED PROSPERITY WOULD BE ENSURED. I REMINDED YAO OF THE VERY SUBSTANTIAL ECONOMIC BENEFITS WHICH ACCRUED TO CHINA FROM HONG KONG AT PRESENT.

(C) YAO HAD SAID THAT OUR ARGUMENT THAT PROSPERITY DEPENDED ON CONTINUED BRITISH ADMINISTRATION WAS UNTENABLE. I REFERRED HIM TO THE GOVERNOR'S PRESENTATION. MOREOVER IT WAS NOT ENOUGH

FOR CHINA SIMPLY TO SAY THAT THE CURRENCY ETC. WOULD CONTINUE AS BEFORE. THESE WERE NOT MATTERS THAT CHINA ALONE COULD DECIDE. THE CHINESE PLAN COULD ONLY WORK IF THERE WAS CONTINUED CONFIDENCE IN HONG KONG NOT ONLY AMONG THE HONG KONG PEOPLE BUT ALSO AMONG PEOPLE OVER WHOM CHINA HAD NO DIRECT CONTROL EG. FOREIGN BANKERS, INVESTORS AND BUSINESSMEN.

(D) I REBUTTED YAO'S POINT THAT THE CHINESE PLAN WOULD BE WELCOMED BY THE HONG KONG PEOPLE WHEN IT WAS PUBLISHED. IT HAD ALREADY BECOME KNOWN IN HONG KONG AT THE END OF 1982, SINCE WHEN THERE HAD BEEN A PROGRESSIVE LOSS OF CONFIDENCE. I STRESSED

THAT HONG KONG'S SUCCESS DEPENDED UPON THE COMPARATIVELY SMALL BUT VITAL CLASS OF SKILLED ENTREPRENEURS, MANAGERS AND PROFESSIONALS , WHO WERE MOBILE AND WHO WOULD LEAVE HONG KONG IF THEY DID NOT HAVE CONFIDENCE.

2. I THEN TURNED TO THE STATEMENT MADE BY LI JUSHENG AT THE MEETING ON 13 JULY WHICH HAD BEEN COMMENDED TO US BY YAO GUANG AS IMPORTANT. IT HAD LITTLE CONNECTION WITH REALITY AND CONSISTED OF A CAREFUL SELECTION OF FACTS FROM WHICH TOTALLY UNTENABLE CONCLUSIONS WERE DRAWN. IN PARTICULAR:

(A) ONE COULD NOT CONCLUDE FROM THE FACT THAT HONG KONG PEOPLE VISITED THEIR RELATIVES ON THE MAINLAND THAT THEY WISHED TO <sup>BE</sup> ABSORBED BY THE MAINLAND. IF WE WERE TO USE MOVEMENTS OF PEOPLE AS A POLITICAL INDICATOR, THE FACTS AND PARTICULARLY THOSE RELATING TO IMMIGRATION INTO HONG KONG FROM CHINA HARDLY SUPPORTED LI'S VIEWS:

(B) IT WAS NOT POSSIBLE TO ARGUE THAT THE GROWTH OF HONG KONG WAS THE RESULT OF THE FOUNDING OF THE PEOPLE'S REPUBLIC OF CHINA IN 1949. HONG KONG WAS NOT DEPENDENT ON CHINA. IT HAD MAINTAINED A HIGH RATE OF GROWTH WHEN CHINA WAS EMBROILED IN THE CULTURAL REVOLUTION. HONG KONG DEPENDED ON THE INTERNATIONAL MARKET, IN PARTICULAR THE US MARKET. CHINA ACCOUNTED FOR ONLY 4.6% OF EXPORTS:

(C) CHINA'S SUPPLIES OF OIL, RICE/RICEE AND WATER TO HONG KONG WERE VALUED , BUT THEY WERE ALL PAID FOR IN HARD CURRENCY.

IT WAS POSSIBLE TO TRADE WITH A COUNTRY AND BUY WATER FROM IT WITHOUT WISHING TO BE ABSORBED BY THE COUNTRY:

(D) MONETARY DEPOSITS SHOULD NOT BE CONFUSED WITH INVESTMENTS WHICH WERE THE REAL TEST OF CONFIDENCE.

PRIVATE SECTOR EXPENDITURE ON PLANT, MACHINERY AND EQUIPMENT HAD DECLINED IN REAL TERMS IN 1982 AND IN THE FIRST QUARTER OF 1983:

(E) THE TAX BURDEN WAS NOT INTOLERABLE . ON THE CONTRARY, IT WAS LIGHT AND FELL MAINLY ON THE RICH:

(F) IT WAS PREPOSTEROUS TO SAY THAT DEEP UNEASE AMONG PEOPLE IN HONG KONG SPANG FROM WORRIES ABOUT LAW AND ORDER RATHER THAN THE QUESTION OF 1997. IF THE CHINESE SIDE BELIEVED THIS THEY WOULD BELIEVE ANYTHING.

(G) TURNING FINALLY TO LI'S ASSERTION THAT THE OVERWHELMING MAJORITY OF HONG KONG PEOPLE WISHED TO BECOME A SPECIAL ADMINISTRATIVE REGION OF CHINA AND WERE DISSATISFIED WITH THEIR PRESENT WAY OF LIFE IN HONG KONG, I SAID THAT THE FACTS DEMONSTRATED OTHERWISE. I PRESENTED A SELECTION OF HONG KONG VIEWS USING A REVISED VERSION OF THE TEXT IN HONG KONG TEL NO 1053.

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/ 3. YAO GUANG

3. YAO GUANG THEN MADE A STATEMENT MAKING THE FOLLOWING POINTS:

(A) THE CHINESE DID NOT AGREE THAT THE PROSPERITY OF HONG KONG DEPENDS ON THE ADMINISTRATIVE LINK WITH BRITAIN. THEY WERE READY TO DISCUSS WITH US HOW TO MAINTAIN THE STABILITY AND PROSPERITY OF HONG KONG. BUT ANY PROPOSAL FOR CONTINUED FOREIGN RULE IN HONG KONG AFTER 1997, ON THE PRETEXT OF MAINTAINING STABILITY AND PROSPERITY, WAS TOTALLY UNACCEPTABLE TO CHINA. IF WE PERSISTED IN THIS LINE YAO DID NOT THINK THAT OUR DISCUSSIONS ON OTHER MATTERS WOULD PRODUCE POSITIVE RESULTS:

(B) WE HAD SAID THAT WE SHOULD SEEK PRACTICAL ARRANGEMENTS FOR HONG KONG IN THE LIGHT OF EXISTING REALITIES. THE MAIN REALITY WAS THAT HONG KONG WAS CHINESE TERRITORY OCCUPIED BY BRITAIN. THE OVERWHELMING MAJORITY OF HONG KONG RESIDENTS WERE PATRIOTIC CHINESE NATIONALS, WHO WANTED HONG KONG TO BE RETURNED TO CHINA. NONE OF THE PRESS ARTICLES I HAD QUOTED HAD SAID THAT HONG KONG WAS NOT CHINA'S TERRITORY. AS SOON AS THE QUESTION OF BRITAIN'S OCCUPATION OF HONG KONG WAS SOLVED IT WOULD BE EASY TO DISCUSS OTHER QUESTIONS.

(C) CHINA HAD TAKEN INTO ACCOUNT THE FACTORS MAKING FOR STABILITY AND PROSPERITY IN HONG KONG WHEN DRAWING UP THE POLICIES IT INTENDED TO ADOPT TOWARDS HONG KONG:

(D) THE POINT IN MRS THATCHER'S LETTER ABOUT THE NEED FOR PARLIAMENTARY APPROVAL WAS BRITAIN'S AFFAIR AND NOTHING TO DO WITH CHINA:

(E) YAO REGRETTED MY REMARKS ON POLICY CHANGES IN CHINA AND DESCRIBED MY REMARK ABOUT THE CHINESE CONSTITUTION AS IMPROPER. HE DISLIKED OUR REPEATED REFERENCES TO THE NEED FOR INSULATION BETWEEN CAPITALIST HONG KONG AND SOCIALIST CHINA. HE DID NOT WISH TO EMBARK UPON AN ARGUMENT ABOUT WHICH SYSTEM WAS BETTER.

4. LI JUSHENG THEN MADE A STATEMENT, CONTAINING FOUR MAIN THEMES:

(A) HONG KONG'S PROSPERITY DEPENDS ON : (I) THE POLICIES AND HARD WORK OF THE CHINESE RESIDENTS OF HONG KONG; (II) GEOGRAPHICAL POSITION; (III) THE ECONOMIC GROWTH OF THE PACIFIC REGION; (IV) THE CONSISTENT SUPPORT OF THE CHINESE GOVERNMENT OVER THE LAST 30 YEARS. THESE FACTORS WOULD REMAIN AFTER CHINA HAD RECOVERED SOVEREIGNTY AFTER 1997. PROSPERITY WOULD CONTINUE WITHOUT BRITISH ADMINISTRATION:

(B) BRITISH ADMINISTRATION IN HONG KONG HAD MADE SOME POSITIVE CONTRIBUTION BUT A NUMBER OF GOVERNMENT POLICIES HAD NOT BEEN SUCCESSFUL. HE CITED HIGH LAND PRICES AS THE CAUSE OF THE PROPERTY AND BANKING CRISIS AND CONSEQUENT DEFICITS, A FALLING

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/ EXCHANGE RATE,

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EXCHANGE RATE, TAX INCREASES AND INFLATION. HONG KONG RESIDENTS HAD A HEAVY TAX BURDEN AND 150,000 PEOPLE HAD RECENTLY SIGNED A PETITION PROTESTING ABOUT THE RISE IN ELECTRICITY PRICES. IT WAS THEREFORE NOT TRUE TO SAY THAT PEOPLE WERE HAPPY WITH LIFE IN HONG KONG UNDER BRITISH ADMINISTRATION. HONG KONG PEOPLE WOULD BE ABLE TO GOVERN THEMSELVES BETTER. TO CAST DOUBT ON THEIR ABILITIES WAS TO SHOW A GROSS LACK OF RESPECT FOR THEM:

(C) HONG KONG WOULD BE ABLE TO MAINTAIN ITS EXTERNAL ECONOMIC RELATIONS AND A FREELY CONVERTIBLE HONG KONG DOLLAR WITHOUT BRITISH ADMINISTRATION. BRITAIN SOMETIMES FAILED TO SUPPORT HONG KONG IN ITS FOREIGN ECONOMIC RELATIONS AND HAD LED THE WAY IN RESTRICTING HONG KONG'S IMPORT QUOTAS TO THE EC. HONG KONG WOULD DEVELOP BETTER IN THIS RESPECT AS A SPECIAL ADMINISTRATIVE REGION. INVESTORS FROM THE US AND JAPAN WERE CONTINUING TO INCREASE THEIR INVESTMENTS IN HONG KONG AND EXPRESS FULL CONFIDENCE IN THE FUTURE. THE VALUE OF THE DOLLAR WAS DETERMINED BY THE HONG KONG ECONOMIC BASE AND NOT BY "CONFIDENCE".

(D) IN SPITE OF WHAT THE GOVERNOR HAD SAID ON 13 JULY BRITAIN HAD VERY LARGE ECONOMIC INTERESTS IN HONG KONG. LI MENTIONED INVISIBLES, AND CITED A RECENT HONG KONG/SHANGHAI BANK ECONOMIC REPORT WHICH SAID INTER ALIA THAT BRITAIN HAD VERY SUBSTANTIAL PORTFOLIO INVESTMENTS IN HONG KONG. HE ADDED THAT BRITAIN ENJOYED SPECIAL RIGHTS IN HONG KONG SUCH AS AIR TRAFFIC RIGHTS AND SHIP REGISTRATION. HONG KONG BANK AND CHARTERED BANK ISSUED BANK NOTES AND WERE THE PRINCIPAL GOVERNMENT BANKERS. BRITISH INSURANCE COMPANIES COULD OPERATE WITHOUT LICENCES. CERTAIN UTILITIES WERE MONOPOLISED BY BRITISH COMPANIES. BRITAIN THEREFORE ENJOYED SPECIAL PRIVILEGES IN HONG KONG. BRITAIN SHOULD CEASE TALKING ABOUT A "MORAL OBLIGATION". ITS MORAL OBLIGATION WAS TO CLOSE THIS DISGRACEFUL CHAPTER OF HISTORY. IT SHOULD CONCENTRATE INSTEAD ON ITS REAL INTEREST AND THE TALKS COULD THEN MAKE PROGRESS. TIME WAS PRESSING.

5. THE TIME WAS NOW AFTER NOON AND THE MEETING ENDED WITH A BRIEF EXCHANGE ON WHAT SHOULD BE DONE AT THE NEXT ROUND. I TOLD YAO THAT WE INTENDED TO FOLLOW ON FROM THE PRESENTATION DELIVERED BY THE GOVERNOR BY HANDING OVER FOUR PAPERS ABOUT THE SYSTEMS IN HONG KONG BEGINNING WITH THE MONETARY SYSTEM, AND SAYING A FEW WORDS ABOUT THEM.

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/ YAO SAID

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YAO SAID THAT THE CHINESE SIDE WAS PREPARED TO RECEIVE THESE PAPERS. THERE WERE HOWEVER A NUMBER OF OUTSTANDING QUESTIONS ON MATTERS OF PRINCIPLE. HE CONSIDERED THAT WE SHOULD CONTINUE TO DISCUSS THESE QUESTIONS AT THE NEXT ROUND. WE AGREED TO LISTEN TO WHAT EACH OTHER HAD TO SAY AND WELCOMED EACH OTHERS COMMENTS.

6. WE AGREED THE PRESS STATEMENT WHICH I HAVE REPORTED SEPARATELY.

7. I PROPOSED THAT OUR TALKS SHOULD RESUME AFTER THE RECESS ON 22/23 SEPTEMBER. YAO UNDERTOOK TO CONSIDER THIS AND GIVE AN EARLY REPLY.

8. SEE MIFT FOR COMMENT

CRADOCK

FUTURE OF HONG KONG

LIMITED  
HD/HKD  
HD/FED  
HD/PLANNING STAFF  
HD/PUSD  
PS  
PS/LADY YOUNG  
PS/MR LUCE  
PS/PUS  
SIR J BULLARD  
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