

M. W.

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FM HONG KONG 290145Z JUL 83
TO IMMEDIATE PEKING
TELEGRAM NUMBER 413 OF 29 JULY
INFO IMMEDIATE FCO

FUTURE OF HONG KONG: TALKS ON AUGUST 2/3.
WE UNDERTOOK TO PROVIDE AN INTRODUCTORY ''PACKAGE'' BY PURPOSE
OF READING THE SUMMARIES OF THE FOUR PAPERS INTO RECORD. WE
SUGGEST SOMETHING ON THE FOLLOWING LINES:

AMBASSADOR'S INTRODUCTION TO MONETARY AND LEGAL SUMMARIES.

1. DURING THE COURSE OF THE LAST ROUND OF OUR TALKS, ON 25 AND
26 JULY, THE GOVERNOR GAVE A PRELIMINARY PRESENTATION ON HOW
HONG KONG OPERATES, AND THE ROLE PLAYED BY THE BRITISH LINK IN
THE PRESENT SYSTEMS, AND IN MAINTAINING CONFIDENCE IN THOSE SYSTEMS.
I SAID THEN THAT HONG KONG WAS FAR TOO COMPLEX A QUESTION TO BE
DEALT WITH ADEQUATELY IN A SINGLE PRESENTATION AND THAT WE SHOULD
WISH TO FOLLOW UP THE GOVERNOR'S PRESENTATION BY PUTTING FORWARD
PAPERS WHICH WOULD ENLARGE ON CERTAIN ASPECTS OF THE ADMINISTRATIVE
STATUS QUO IN HONG KONG, AND IN PARTICULAR ON THE MONETARY, LEGAL,
ECONOMIC AND FINANCIAL SYSTEMS. I EXPLAINED OUR VIEW THAT WE SHOULD
STUDY TOGETHER THE WAY IN WHICH THESE SYSTEMS OPERATE AT PRESENT
IN ORDER TO ESTABLISH THE ROLE OF THE PRESENT ADMINISTRATIVE
ARRANGEMENTS IN MAINTAINING STABILITY AND PROSPERITY. AS I SAID
THEN, WE SEE THIS AS A LOGICAL FIRST STEP TOWARDS AGREEMENT ON
HOW THE CONTINUITY OF THE SYSTEMS CAN BE ENSURED.

2. IN OUR TALKS SO FAR BOTH SIDES HAVE PUT EMPHASIS ON THE ROLE
OF THE HONG KONG DOLLAR, AND I TAKE IT THAT IT IS COMMON GROUND
BETWEEN US THAT THE HONG KONG DOLLAR MUST REMAIN AN INDEPENDENT
AND FREELY CONVERTIBLE CURRENCY IF PROSPERITY IS TO BE PRESERVED.
IT WAS FOR THAT REASON THAT I SAID DURING THE LAST ROUND THAT WE
PROPOSED TO BEGIN BY EXPLAINING THE NATURE AND OPERATION OF THE
MONETARY SYSTEM IN HONG KONG. WE HAVE PREPARED A DETAILED PAPER
ON THIS AND I HOPE THAT THE CHINESE SIDE WILL STUDY CAREFULLY
THE FACTS WHICH IT CONTAINS. THERE IS TIME NOW ONLY TO GIVE A
BRIEF SUMMARY OF ITS MAIN POINTS.

(SQUARE BRACKETS BEGIN) READ SUMMARY OF PAPER ON MONETARY SYSTEM.
(SQUARE BRACKETS END)

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3. I TURN NOW TO THE LEGAL SYSTEM. AGAIN I NOTE THAT YOU, MR VICE MINISTER, SAID IN YOUR STATEMENT ON 25 JULY THAT UNDER THE CHINESE GOVERNMENT'S PROPOSALS FOR HONG KONG AFTER 1997 THERE WOULD BE AN INDEPENDENT JUDICIAL POWER, AND THAT LAWS AND ORDINANCES WOULD BE "BASICALLY UNCHANGED". THE PRESENTATION WHICH THE GOVERNOR GAVE ON 26 JULY EXPLAINED THE LINK BETWEEN THE LEGAL AND JUDICIAL SYSTEMS IN HONG KONG AND THOSE IN BRITAIN, WHERE SIMILAR SYSTEMS HAVE BEEN IN FORCE FOR MANY CENTURIES. THE PAPER WHICH WE HAVE PREPARED ON THE LEGAL SYSTEM PROVIDES A DETAILED EXPLANATION OF THE PRESENT LEGAL AND JUDICIAL SYSTEMS AND THE WAY IN WHICH THEY OPERATE. AGAIN THERE IS TIME ONLY FOR ME TO GIVE A BRIEF SUMMARY OF THE MAIN POINTS OF THE PAPER. I URGE THE CHINESE SIDE TO STUDY THE PAPER CLOSELY.

(SQUARE BRACKETS BEGIN) READ SUMMARY OF PAPER ON LEGAL SYSTEM.
(SQUARE BRACKETS END)

4. I SHOULD NOW LIKE TO ASK THE GOVERNOR TO INTRODUCE THE FINAL TWO PAPERS WHICH WE WILL BE PRESENTING TO YOU TODAY.

GOVERNOR'S INTRODUCTION TO ECONOMIC AND FINANCIAL SUMMARIES.

IT IS CLEAR FROM A COMPARISON OF THE FIRST SECTION OF THE PRESENTATION WHICH I GAVE ON 26 JULY AND CERTAIN PARTS OF MR LI JUSHENG'S STATEMENT THAT THERE IS A GOOD DEAL OF AGREEMENT BETWEEN THE TWO SIDES ON THE IMPORTANCE OF CERTAIN GEOGRAPHICAL AND HUMAN ADVANTAGES IN THE REMARKABLE ECONOMIC SUCCESS WHICH HONG KONG HAS ACHIEVED OVER THE PAST 30 YEARS. THERE IS AGREEMENT, TOO, ON THE ROLE OF HONG KONG'S EXPORT INDUSTRIES IN THE HONG KONG ECONOMY, AND I NOTE FROM WHAT YOU, MR VICE MINISTER, SAID ON 25 JULY, THAT THE CHINESE GOVERNMENT'S INTENTION IS THAT HONG KONG SHOULD RETAIN AFTER 1997 ITS STATUS AS A FREE PORT AND AN INTERNATIONAL FINANCIAL CENTRE, AND THAT THE TERRITORY WOULD RETAIN AND DEVELOP ITS EXISTING FOREIGN RELATIONS IN THE ECONOMIC FIELD. IN HIS COMMENTS ON YOUR STATEMENT THE AMBASSADOR POINTED OUT THAT THE CONTINUATION OF THESE THINGS WAS NOT SOMETHING WHICH CHINA COULD ENSURE SIMPLY BY SAYING THAT THEY WOULD CONTINUE: THEY DEPEND NOT ONLY UPON THE POLICIES WHICH CHINA PURSUES BUT ALSO UPON THE CONFIDENCE OF DOMESTIC AND INTERNATIONAL INVESTORS AND BUSINESSMEN. THE PAPER WHICH WE HAVE PREPARED ABOUT THE ECONOMIC SYSTEM EXPLAINS IN DETAIL THE EXTERNALLY ORIENTED NATURE OF THE HONG KONG ECONOMY AND THE PART WHICH THE UK'S MEMBERSHIP OF THE GATT HAS PLAYED IN SECURING AND MAINTAINING THE TERRITORY'S ACCESS TO ITS MAIN EXPORT MARKETS. THE PAPER WILL REQUIRE CAREFUL STUDY BY THE EXPERTS ON THE CHINESE SIDE. I CAN DO NO MORE THAN SUMMARISE THE POINTS TODAY.

(SQUARE BRACKETS BEGIN) READ SUMMARY OF PAPER ON ECONOMIC SYSTEM.
(SQUARE BRACKETS END)

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5. FINALLY, I TURN TO THE FINANCIAL SYSTEM AT PRESENT IN FORCE IN HONG KONG. ONCE MORE THERE IS TIME FOR NO MORE THAN A BRIEF SUMMARY BUT CAREFUL STUDY OF THE PAPER AS A WHOLE WILL SERVE TO REMOVE ANY REMAINING MISCONCEPTIONS ON THE CHINESE SIDE ABOUT THE "PROFITS" WHICH THE BRITISH GOVERNMENT IS SAID BY SOME TO DERIVE FROM HONG KONG.

(SQUARE BRACKETS BEGIN) READ SUMMARY OF PAPER ON FINANCIAL SYSTEM.
(SQUARE BRACKETS END)

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(REPEATED AS REQUESTED)

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
MR GIFFARD
MR DONALD
MR WRIGHT

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MR BURROWS LEGAL ADVISERS
MR MARTIN ASSESSMENTS STAFF
CABINET OFFICE
MR FLOWER PUSD
MR COLES NO 10 DOWNING ST
SIR A PARSONS " "
MR WALKER, RESEARCH DEPT
MR ROBERTS NEWS D GOGGS

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