

R.A. STALLABRASS

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C/F PPS?

1 September 1983

I am writing on behalf of the Prime Minister to thank you for your letter of 31 August with which you enclosed your policy paper on the future of Hong Kong. I am sure she will read this with interest.

W. F. S. RICKETT

R.A. Stallabross, Esq.

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THE MONDAY CLUB

Foreign Affairs Policy Committee

122 Newgate Street
LONDON EC1
Telephone: 01-606 1910/7815

Prime Minister
GA

Chairman: The Earl of Kimberley
Vice-chairman: Richard Stallabrass
Secretary: Glen A. Payne

*An acknowledgment
has been sent.*

The Rt. Hon. Mrs. Margaret Thatcher, MP,
The Prime Minister,
10 Downing Street,
London,
S.W.1.

MR 6/9

*John - this is a
remarkably sound
& perceptive summary
31st August 1983.*

MR

MR 14/9

P.A.

Dear Prime Minister,

I have pleasure in enclosing our policy paper on the future
of Hong Kong.

The Committee hopes that a satisfactory solution can be
found and that the points mentioned in the paper will assist
you.

A copy has also been sent to the Secretary of State for
Foreign and Commonwealth Affairs, and to Conservative Members
of Parliament who are likely to express an interest in this
aspect of foreign policy.

Yours sincerely,

RA Stallabrass
R.A. Stallabrass,
Vice-Chairman.

Encl.



MONDAY CLUB

POLICY PAPER

PRICE 20p

FOREIGN AFFAIRS POLICY COMMITTEE

No. F.A.2.

Chairman: The Rt. Hon. The Earl of Kimberley

AUGUST, 1983

THE FUTURE OF HONG KONG

Once described by Lord Palmerston as a barren rock with hardly a house upon it, and now in 1983 a bustling metropolis that is Britain's only major colonial outpost, Hong Kong and its future are likely to cause significant problems for Britain in the latter part of 1983 and 1984. This paper sets out the historical background to Hong Kong, summarises the present political situation there and the ways that this could affect Britain, and suggests some possible conclusions.

HISTORY

Hong Kong is made up in three parts. The first part to be acquired was the island of Hong Kong itself in 1842. In 1860 a further small area, part of the peninsula of Kowloon, was acquired. Both these acquisitions were permanent. The final and much the largest area to be acquired was the New Territories, including "New Kowloon", in 1898. This final area was leased to Britain for only 99 years, the lease expiring on 30th June 1997. Since the last war the three parts have always been treated as one, and it would be inconceivable now for any part to be separated from the others. Many important facilities such as giant power stations, major new towns and the airport lie in the New Territories. If the lease were strictly complied with and the New Territories alone returned to China, the boundary would be astride the main east-west artery of Kowloon. Unless one sought a "Vatican type solution", it would be totally unrealistic to sub-divide the areas of Hong Kong.

Hong Kong is run politically by a Governor and Executive Council, assisted by a Legislative Council. Members of these bodies are appointed and are largely drawn from the local business community. Some are Chinese. Additionally, functioning as a sort of "town council", is the "Urban Council". This is half elected and half appointed. Until the franchise was enlarged in 1982 derisory numbers of electors bothered to vote; on one occasion only some 6,000 people voted. In March 1983 over 100,000 people voted, reflecting a growing concern for the future. Below the Urban Council are District Boards. They have minor functions and are a recent introduction. Half the members are elected and half appointed. The first elections for these were held in 1982, and the turnout was high by Hong Kong standards. There are no political parties, although some "associations" exist. Elected members tend to be independent. No openly declared Communist or Nationalist Candidates stand at the election.

At all times China has insisted that the three treaties by which Hong Kong was ceded to Britain were 'unequal' and therefore invalid. Although Peking has always maintained this, it has done little to assert it until recent times. China derives enormous advantages from Hong Kong. A large percentage of China's trade passes through Hong Kong. 40% of China's foreign exchange is earned in Hong Kong. She has massive investments in Hong Kong. Hong Kong in turn relies heavily upon China for basic products, food stuffs and even water. China could simply apply pressure on Hong Kong by restricting the flow of these items into the territory. The economics of Hong Kong and China are already interdependent. Logically therefore China should have a vested interest in maintaining the stability and prosperity of Hong Kong as it is presently constituted. However, logic and politics do not always mix. To the Chinese Government, the matter of "loss of face", insignificant when 1997 was a long way off, becomes more serious as the 1997 deadline approaches.

PRESENT POSITION

The status quo that existed until 1982 has already been shattered. Prior to that time investors were content with the knowledge that China told them to "put their hearts at ease". As the 15 year deadline to the lease approached in 1982 (its significance being that this is the longest normal term available for mortgage finance) pressure mounted in Hong Kong for the lease problem to be solved. The pressure came from investors and others in Hong Kong who hoped for a clear extension of the lease, as indeed did much of the local population if limited opinion polls are to be believed.

In September 1982, Mrs. Thatcher visited Peking. The Chinese publicly repeated their stance on the unequal treaties, whilst the Prime Minister upheld their validity. It was agreed that secret negotiations should commence on the future of Hong Kong with confidentiality being observed by both parties. The Chinese have repeatedly breached this principle by commenting on the future of Hong Kong, whilst the British and Hong Kong Governments have abided by the principle.

It has become clearer that, as time has progressed, China's attitude has hardened. It appears that China is now stating that the return of all Hong Kong in 1997 is essential and that it is only prepared to discuss the interim period of 14 years as a transition period to Chinese rule. Reports suggest that in due course Hong Kong would become a "Special Administrative Region" of China, retaining its own administrative system and having a capitalist economy. Whilst China no doubt wishes to retain the benefits of Hong Kong it is difficult to envisage how a capitalist economy could survive under communism.

As the Chinese aims became clearer, a deep sense of gloom set in some months after Mrs. Thatcher's visit. The local Dollar sank, important new investment projects were cancelled and many local people started to make enquiries about emigration. The Hong Kong Government has attempted to uphold confidence, suggesting that all will be well. Towards the end of July 1983 there was a slight recovery in the Stock Market, in the property sector and in the strength of the Dollar. But the recovery is fragile and any hint of disagreement from Peking is likely to renew the slide.

At all times China has stated that the talks which are being held will be on a Government to Government basis. China argues that it itself represents the people of Hong Kong. It has insisted that the "three-legged-stool" concept (picturesquely used to describe the talks being held to represent London, Peking and Hong Kong) has no validity. When the Governor of Hong Kong asserted before the first round of talks in July 1983 that he was attending the talks as "the representative of the people of Hong Kong" there was a vigorous reaction from the pro-communist press in Hong Kong. The Chinese Government refused an entry visa to Peking for the Hong Kong Director of Information, Mr. Tsao, who was to attend as the Governor's personal press officer. There have even been times in the last year when the left wing press questioned whether the Governor would be welcome at all at the talks.

Further talks are being held at the end of July 1983. It is likely these talks will continue for some time. There have been indications in the left wing press in Hong Kong that the Chinese leadership regards it as important that the question should be solved by the end of 1984.

Opinion polls taken in Hong Kong have shown a clear preference to remain under British administration with an acknowledgement of Chinese sovereignty. The Polls have also shown a clear appreciation of freedom of choice, freedom of speech and freedom to make money. The overwhelming majority of people wish to be consulted on the future. Almost 22% (710,000) indicated that if China took back Hong Kong, they "would try every means to leave". It is highly unlikely that Peking would permit a referendum to test these views.

The Hong Kong people are in the main refugees from communism and wish to retain Hong Kong as a Capitalist Society. Hong Kong stands as the complete opposite of everything communism stands for, with almost no interference by the government in everyday life. The nature of communism is such that it inevitably has to control all means of choice. It is unlikely that Hong Kong could survive in the present form as a "Special Administrative Region" without the Peking government being tempted at some stage to interfere in its internal workings.

EFFECT UPON BRITAIN

In the past, devolving power in Britain's colonies has meant the transfer of power to a local elite who have in most cases attempted to maintain a democratic form of government. Sadly this has not always lasted for long. In the case of Hong Kong it is inherent in the Chinese position that the 5½ million people of Hong Kong are handed over to communist rule. China may have presented a more liberal face of communism in recent years, but it is undoubtedly true that any form of dissent is ruthlessly suppressed.

The Chinese promise that the future Hong Kong will still keep its capitalist system whilst being under local administration. It would be able to take its own decisions. The Chinese Government does not appear to recognise the inherent inconsistency of a communist administration running a capitalist society. Or perhaps it does recognise this, and its claim is simply to pacify Hong Kong opinion. China has already begun to interfere in Hong Kong policies by pointedly excluding the Governor's own personal press officer from attending the talks with him in Peking. The inevitable result of return to China, without some British presence, is that the people of Hong Kong will be placed under totalitarian rule, whether from Peking or locally from Hong Kong.

As 1997 approaches more people will wish to leave Hong Kong, and some will look to Britain. Under the recent British Nationality Act, which was bitterly attacked in Hong Kong, there are only two ways that they will be able to obtain entry to Britain to reside. The first is that the Home Secretary has the right to admit certain categories of persons who have been civil servants and others who have worked in sensitive positions for the colonial government. The local Police Inspectors' Association has already sought to raise this in Hong Kong and gain entry for its 1,000-odd members and their families. The second method is by qualifying as an "investor immigrant", by "investing" £150,000 in Britain. This appears a large sum, but it is estimated that up to 1,000 people in Hong Kong are worth over £10 million each. Under both categories it can be seen that there are far larger numbers of people who are potentially eligible for entry to the United Kingdom than appears at first.

CONCLUSIONS

Whilst there is an inherent clash in the desire to be Chinese and to remain free, there is a clear wish at the moment of the people of Hong Kong to retain some link with Britain. There is also fear and mistrust of the ability of China to keep Hong Kong prosperous. Hong Kong's present prosperity is due to its being British. It is impossible that, under a communist regime, Hong Kong would have achieved the success that it has. A severing of the British link would lead to a collapse of confidence and economic ruin. At all times in the negotiations with China it should be essential to stress the wishes of the people of Hong Kong. An urgent settlement to the negotiations is called for, or confidence will ebb and fall. It is necessary to retain for as long as possible a British presence.

Secondly, the rights of emigration to Britain should be clarified. They are too vague and uncertain and lead to unnecessary hopes being raised. There should be a clear indication of how many people are eligible for entry in the two categories intended and how many people it is proposed to admit. Presumably it is intended that only very small numbers of people should be admitted. If that is so, then it should be made clear that these are only to be the exceptional cases. The legislation should be amended to embody this.

Author : David Sparrow