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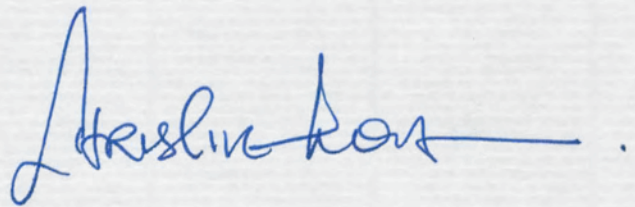
Mr.A.J. Coles
Private Secretary
10 Downing Street
London
England

Dear Mr. Coles,

Thank you for seeing me when I was in London.
We have returned from Peking and I am enclosing our
position paper for you. It is substantially the same
one as what I showed you with a few additions.

Wishing you a very happy New Year.

Best reagards,

A handwritten signature in blue ink, appearing to read "Christine Loh", with a long horizontal flourish extending to the right.

Encl.

POSITION PAPER

1. We are very happy to be in Peking, and to have the opportunity to meet with representatives of the Chinese Government. We are grateful to the New China News Agency for extending the invitation to us, and we welcome the opportunity to exchange views with Chinese officials on the situation in Hong Kong, and on what means need to be adopted to safeguard Hong Kong's stability and prosperity.

2. We are pleased that the Chinese and British Governments are holding diplomatic discussions with the common goal of maintaining stability and prosperity in Hong Kong. These discussions have the support of Hong Kong people, since cooperation between the governments of the People's Republic of China and the United Kingdom is essential to safeguard Hong Kong's stability and prosperity. If China and Britain do not cooperate with each other, Hong Kong will suffer. The weakness of the Hong Kong dollar and the recent difficulties of some property companies and banks in Hong Kong are clear signs of the fragility of Hong Kong's stability and prosperity.

3. We all live and work in Hong Kong, and most of us were born there. Therefore we know Hong Kong quite well, perhaps even better than the people at the negotiating table, none of whom consider Hong Kong their home. We want these negotiations to succeed, because our livelihood and our future, as well as the future of our children, depend on it.

4. In the course of over a hundred years, Hong Kong has become a modern, sophisticated and very complex society. It is the world's third largest financial centre and is a hub of commerce, communications and transport. The continuation of this success is dependent on the maintenance of its social, economic and legal systems, its pool of experts, managers and planners, its status as a free and politically neutral port, minimal government intervention and the speed with which decision-makers can adapt to changes.

5. A very important factor necessary to maintain Hong Kong's prosperity is the recognition of Hong Kong as a separate entity under many international treaties and by many international bodies. This, coupled with Hong Kong's ability to run its own affairs, has enabled Hong Kong to play a major role within the international financial community. Without these assets Hong Kong, which has almost no natural resources, would be reduced to a barren rock.

6. Hong Kong's affiliation with the General Agreement on Tariffs and Trade (GATT) is one of its most important ties within a vast international trading structure. The recognition of Hong Kong as a separate customs area under GATT has enabled Hong Kong to obtain a favourable trading position. Hong Kong has also been able to negotiate and use substantial textile quotas within the framework of the Multi-Fibre Arrangement (MFA). These agreements are vital to Hong Kong, since 60 percent of its exports go to the United States and the European Economic Community, and 25 percent of its gross domestic product is from manufacturing, which accounts for 40 percent

of its work force. In addition, the Hong Kong dollar is a freely convertible currency and the Hong Kong passport is a widely recognized and accepted travel document.

7. For Hong Kong to remain stable and prosperous, it will be necessary to retain the current economic, social and legal systems in Hong Kong, and for Hong Kong to retain its status in the international community. The mechanisms are delicate and the slightest change may bring about irreparable damage.

Hong Kong's Future

8. We believe that both the Chinese and British Governments have a responsibility to the people of Hong Kong. By resuming the exercise of sovereignty, China will be assuming ultimate responsibility for the territory. The complex society that Hong Kong has developed into, with its manifold problems, will become China's problems. Of course, we believe Hong Kong people are willing and able to run Hong Kong, but this cannot be done without the support of the Chinese government and an appropriate constitutional framework.

9. Similarly, the British government has an obligation to the people of Hong Kong. It has the responsibility to see that it does not hurt Hong Kong by an abrupt withdrawal. Any change must be gradual, and the British government has a responsibility not to create a vacuum when it departs, since that may well lead to confusion if not chaos.

10. Like people everywhere, Hong Kong people desire to administer

their own affairs. We therefore support the Chinese government's policy that Hong Kong should become a self-administering territory within the People's Republic of China. We believe that, with the goodwill of the Chinese and British governments, this policy can be properly implemented and can result in the maintenance of stability and prosperity in Hong Kong. It will also benefit the five and a half million people of Hong Kong, who can work for a more just society and can have a greater sense of belonging, commitment and pride.

11. However, if the policy is not properly implemented, it will bring misfortune to the people of Hong Kong. In addition, there may even be regional and international repercussions.

12. While the policy of self-administration appears simple, it presents many pitfalls. Its success is dependent on confidence of the people of Hong Kong not only in themselves but in the Chinese government as well. Such confidence is directly related to Hong Kong people's perception of China's political and economic developments and the possibility of China interfering with Hong Kong's internal affairs.

Hong Kong's Worries

13. At present, there is deep-seated distrust of the Chinese Communist Party among many people in Hong Kong and overseas. This is a result of historical developments over the last few decades, and must be acknowledged in the spirit of seeking truth from facts. The Chinese authorities can only earn the confidence of people in

Hong Kong through sustained and consistent acts over a long period of time and not by rhetoric.

14. There has been a fundamental change in China's policies since the Cultural Revolution ended. It is the fervent wish of the people of Hong Kong that there will no longer be major political upheavals in China in future. If Hong Kong had been involved in the tragedies that devastated China in the 1950s and 1960s, it would be a very different place today. Additionally, uncertainty over China's future leadership, the bureaucratic nature of its political system, and the differences in the economic systems between Hong Kong and China, have all aroused the concern of the people of Hong Kong. That is why Hong Kong people believe it is necessary to protect Hong Kong from future political upheavals in China.

15. We find it encouraging that various Chinese leaders have made statements to the effect that the social, economic and legal systems in Hong Kong will remain unchanged. However, such statements are not enough. Uncertainty over the territory's future may seriously retard economic development. For example, all land leases in the New Territories expire in 1997. Unless the holders of these leases know that they can be renewed, development in the New Territories may be retarded. The New Territories account for over 90 percent of Hong Kong's land area. And because there is no legal guarantee that the holders of land leases will be able to extend them beyond 1997, banks will be reluctant to finance industrial or housing projects whose terms extend beyond 1997.

16. Another problem is that of civil servants. If the current Hong Kong government's authority is to lapse in the foreseeable future, it may find it difficult to attract capable people into the civil service. Uncertainty about career prospects and future pension rights may deter potential candidates from joining the civil service.

17. The above are some of the problems confronting Hong Kong today. They cannot wait for 13 years and must be solved soon. Resolution of such problems requires cooperation between China and Britain. We suggest that China and Britain issue a joint communique on ways of resolving such problems.

18. In addition, we feel that any policies China is considering for Hong Kong should be thoroughly discussed by Hong Kong people before they are put into effect.

General Principles

19 We understand the Chinese government's policy on Hong Kong is :

- to maintain its stability and prosperity
- to preserve its current social, economic and legal systems
- to give self-administrative rights to Hong Kong
- to vest authority in a local government that is representative of the Hong Kong people.

20. In order for these policies to be properly implemented, we believe it will be useful for the following measures to be adopted:

(a) The status of Hong Kong as a self-administering territory should be explicitly stated in the Chinese Constitution. To maintain international confidence in the long-term future of Hong Kong, the Constitution should specify that there will be no abrogation of the status without the consent of the people of Hong Kong. The Constitution should define the relationship between the Chinese government and the Hong Kong government.

(b) To further instill confidence in the people of Hong Kong, a special constitution for Hong Kong should be drafted with the participation of Hong Kong people and made public to the international community. The validity of this constitution should be recognized by the Constitution of the People's Republic of China.

(c) The future government of Hong Kong should be elected by the people of Hong Kong to ensure that it is accountable to the people. The present Hong Kong government is based on a system of appointments. Although many of the individuals have contributed significantly to Hong Kong, they owe their office to the people who appointed them and therefore cannot be considered to be true representatives of the Hong Kong people.

(d) The future government should have powers at least as wide as those of the current Hong Kong government. It should have full authority in the running of internal affairs as well as having certain powers covering external relations, especially economic affairs. This is necessary to enable Hong Kong to maintain its position as an international centre of commerce and finance. Only in this way will Hong Kong be able to retain its position in the international financial community, and be able to react speedily to world developments.

(e) The transition towards self-administration should be gradual, step by step, rather than overnight on July 1, 1997. Reassurance must be given to the people of Hong Kong that there will not be abrupt changes in 1997 and that sufficient time will be allowed for the emergence of community leaders. As the Chinese saying goes, "It takes 10 years to grow a tree, but 100 years to produce capable people." We are not saying that it will take 100 years for Hong Kong to be ready for self-administration, but we believe it may take a very long time.

(f) A joint communique should be issued by China and Britain containing the two governments' determination to work together to maintain Hong Kong's stability, up to and beyond 1997, together with specific measures that are to be adopted.

A Hong Kong Model

21. We believe that if the policy of self-administration is properly implemented, the future Hong Kong should have the following characteristics:

- (a) A constitution that will
 - (i) Deliniate the authority of the Hong Kong government.
 - (ii) protect human rights as provided for by the United Nations Universal Declaration on Human Rights.
 - (iii) Uphold the power of judicial review of the exercise of governmental powers, and
 - (iv) provide a framework for administration.

- (b) A political system that will provide for
 - (i) a government that is accountable to and representative of the people of Hong Kong, based on free elections,
 - (ii) a government that is autonomous in principle and practice
 - (iii) a government that is based on the principle of separation of powers among the executive, legislature and judiciary.

- (c) A legal system that will uphold
 - (i) the fundamental principle of the rule of law
 - (ii) the principles entrenched in the Hong Kong constitution

- (d) An economic system that provides for
 - (i) continuation of capitalism and a free market economy
 - (ii) protection of individual economic rights, proprietary interest and enterprise

Interim Measures

22. We hope that the Chinese and Britain governments will be willing to help Hong Kong people to attain self-administration and will agree to prepare the people of Hong Kong for this purpose as soon as possible. During the period when Hong Kong is preparing for self-government, we propose that the following measures be adopted:

- (a) To sure that community leaders who genuinely represent the people will emerge, free elections should be progressively implemented including introduction of elected members to the Legislative Council with the ultimate objective of having a totally elected government, including the chief executive.

(b) For continuity to be maintained in the civil service, the present Hong Kong government should take steps to groom local people to take over more and more senior positions.

(c) To provide a detailed framework for Hong Kong's self-administration, a constitution-drafting committee, consisting of elected representatives of Hong Kong, should be set up to draft the Hong Kong constitution with the assistance of the Chinese and British governments.

(d) To ensure that there are no abrupt changes, the official British presence in Hong Kong should only be reduced step by step.

(e) To obtain international recognition of Hong Kong's special position, China and Britain should make efforts to obtain the cooperation of other countries so that Hong Kong's participation in international agreements and organizations will continue to be recognized. In addition, these countries will have to be persuaded to recognize Hong Kong's future government and its autonomous status, the future Hong Kong passport, currency, etc.

23. It is envisaged that the new self-administration government of Hong Kong may need assistance in its early years in order to function properly. We believe it is desirable to secure the British government's willingness to make available at the request of the Hong Kong government a small number of experienced administrators who will form a consultative panel in Hong Kong. During this time, the new Hong Kong government will be able to call upon these British officials for advice.

24. The above are our views on steps that need to be taken to safeguard Hong Kong's prosperity and stability. We welcome the opportunity to establish a dialogue between the people of Hong Kong and the Chinese government.