

SPEECH BY THE RT HON SIR GEOFFREY HOWE QC MP
SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH
AFFAIRS OPENING THE DEBATE ON HONG KONG IN THE
HOUSE OF COMMONS: WEDNESDAY, 16 MAY 1984

I am very glad that we have the opportunity tonight to debate the important issue of Hong Kong's future. It is a matter of prime concern to Her Majesty's Government - and, indeed, to right hon and hon Members in all parts of this House, many of whom have of course visited the territory and know it well. For that reason I have no need to recall in detail the unique conjunction of history and geography that has fashioned Hong Kong. Over almost a century and a half, a diverse community has grown and flourished there. British administration, in partnership with Chinese energy and creativity, has secured for Hong Kong an economic influence in the world out of all proportion to its size.

Anyone who has visited one of the thriving new towns in which literally millions of Hong Kong people have made their homes and are making their lives will have been moved, as I was, by feeling the powerful sense of community and vitality that prevails. They will have been reminded vividly of our responsibility for the future of this unique society.

Inescapably, the future has to be seen against the background of one all-important fact - the fact that 92 per cent of the land area is held under a lease which expires in 1997. That reality, which no-one can ignore, means that the future of Hong Kong is inseparably bound up with the great and historic nation that is China.

In that situation, the future of a unique society calls for a unique solution. That is why we have for the last eighteen months been engaged with the Chinese Government in the task of exploring

what arrangements can best secure the future of the territory. Perhaps the most encouraging feature of this joint endeavour is that the two governments share a common objective - the objective of reaching an agreement which will ensure the stability and prosperity of Hong Kong. The Chinese government have many times made it clear that that is their purpose. And it is, of course, our own.

The outcome of these negotiations will affect most of all the people of Hong Kong. It is natural that they should be anxious. I fully understand their very real concern.

Hon Members will have heard something of this for themselves from the two groups from Hong Kong who are now in London. Many will have met the delegation of Unofficial members of Hong Kong's Executive and Legislative Councils. I had a long discussion with them myself yesterday evening. I should like to take this opportunity to pay a tribute to the very important contribution that the Unofficial members of the two Councils make, in their different ways, to the administration and the life of Hong Kong. The Unofficial members of the Executive Council in particular play an important dual role. On the one hand, they are close advisers of the Governor. And on the other, they seek understandably to express their understanding of the wishes and concerns of the people of Hong Kong to a wider public, including of course members of this House.

It was in that latter, independent, capacity that they associated themselves with the statement which I understand has been sent to all members of the House. The House will readily understand - but I wish to place the matter absolutely beyond doubt - that that statement was issued entirely on their own initiative. Its terms were not the subject of any prior consultation with Her Majesty's Government, either in London or in Hong Kong. To put it plainly, they were exercising the right of free speech, as it exists today in Hong Kong.

Discussions on Hong Kong's future dominated the visits to Peking and Hong Kong which I undertook last month. My visit to Peking lasted from 15 to 18 April. My aim there was to review the course of the negotiations so far and to give them a new impetus at Ministerial level. I held talks with the Chinese Foreign Minister Wu Xueqian, with State Counsellor Ji Pengfei, Head of the Hong Kong and Macao Office of the State Council, with Premier Zhao Ziyang and with Chairman Deng Xiaoping. By far the greatest part of the talks was spent in serious and detailed discussion of all aspects of the future of Hong Kong. The meetings were businesslike and the atmosphere good.

I went on to Hong Kong and there held discussions with the Governor and the Unofficial members of the Executive and Legislative Councils. This was my fifth meeting, my first in Hong Kong, with members of the Executive Council. I also met representatives of a wide range of local opinion including members of the Urban Council and the district boards, and of the business community.

In Hong Kong, my purpose was not only to consult, but also to explain the way in which the Government is approaching the present negotiations on Hong Kong's future. This I did in a public statement which I made on 20 April. Copies have, of course, been deposited in the library of the House.

The House will understand why it was not possible, then, and would not be right now, for me to go into detail about the content of our negotiations with the Chinese government. These negotiations are still in progress. Both sides are agreed that they must remain confidential. I do of course appreciate the difficulties which that need for confidentiality poses for members of this House, and even more for the people of Hong Kong. But I have no doubt that confidentiality is important for their success. And I believe that what I was able to say in Hong Kong and can tell the House tonight will allow discussion on the future to be conducted on a reasonably informed basis.

Let me now describe to the House the basis of our approach. I have no doubt that it was right to express in Hong Kong my clear conclusion that it would not be realistic to think of an agreement that provided for continued British administration in Hong Kong after 1997. It was right for us to explore every possibility before coming to that conclusion. But it is a conclusion that emerges inescapably from the negotiations and most of all from the reality that I have explained, the expiry only 13 years hence of the lease over 92 percent of the territory. In those circumstances we concluded that it would be right to concentrate on other ways of securing the assurances necessary for the continuity of Hong Kong's stability, prosperity and way of life.

This brings me to the key question of continuity. The Chinese Government have made it clear publicly that they recognise the special circumstances of Hong Kong, and that they want its social and economic systems and lifestyle - in many ways so different from those of mainland China - to remain unchanged. They have also underlined their recognition that Hong Kong should continue as a separate entity within the international economic and trading community. These points were reaffirmed only yesterday by Premier Zhao Ziyang when he addressed the National People's Congress in Peking. We share with the Chinese Government the strongest possible common interest in these objectives. Our approach to the talks has, therefore, been to examine with the Government of China how it might be possible to arrive at arrangements that would secure for Hong Kong after 1997 a high degree of autonomy under Chinese sovereignty and that would preserve the way of life of Hong Kong, together with the essentials of the present systems.

It is important to understand the high degree of autonomy now exercised by the Hong Kong Government. Decisions affecting the day to day life of Hong Kong are taken in Hong Kong and not by Her Majesty's Government in London. I cannot emphasise too strongly the fact that Her Majesty's Government does not, and will not, look on Hong Kong as a source of revenue. Decisions affecting Hong Kong, its economy, its taxes, its land, the management of its currency are taken in Hong Kong and by Hong Kong.

The widespread confidence in Hong Kong which today prevails springs very largely from that autonomy. If confidence is to be maintained, the people of Hong Kong, as well as governments and investors around the world, need an assurance that this autonomy will be preserved after 1997. That assurance can best be provided by a detailed and binding agreement between the British and Chinese Governments, an agreement which plainly and fully sets out the arrangements for the future.

I can understand the real concern in Hong Kong about the idea that two distinct political and economic systems, the socialism of the People's Republic of China and the free market system of Hong Kong, might co-exist under a single sovereignty. It is my belief that the Chinese Government share the desire of Her Majesty's Government to see the continuation in Hong Kong of a society which enjoys its own economic and social systems and distinct way of life. It is, of course, the case that Hong Kong has not existed in the past, could not indeed have survived over any period, in a state of hostility with China. It is in this context that the Chinese Government has evolved the unique and imaginative concept, which Chairman Deng Xiaoping himself described to me, of two systems within one nation.

It is against this background that it is possible to foresee a situation in which Hong Kong would, as part of China, enjoy a high degree of autonomy which would last for at least fifty years from 1997.

In such a situation, that autonomy would extend to administration, the maintenance and making of laws (including the Common Law system), the continuation of Hong Kong's own long-established and familiar system of justice and responsibility for public order in the territory. Under such arrangements, the laws of Hong Kong would be based upon the present system and existing freedoms would be maintained. Hong Kong would manage its own public finances. There would be a place for outside people, from Britain and elsewhere, to go on making a contribution to life in Hong Kong.

Hong Kong's role as an international financial and commercial centre is of particular importance for its prosperity. This depends upon maintaining its present openness to the world and its extensive and direct economic relationship with its trading partners. Arrangements would need to be made, in co-operation with the other countries concerned, to ensure that Hong Kong remained an important participant in regional and world economic organisations such as the Asian Development Bank and, in particular, the GATT.

We are fully aware of the crucial importance for Hong Kong's trading activity of its status in the latter organisation and indeed of its ability to manage its international economic relations as a whole.

In the same context it is essential to maintain an independent Hong Kong dollar, which would, as now, circulate freely as an internationally convertible currency. That convertibility is indeed a key element in Hong Kong's prosperity. It must be underpinned by really effective confidence.

The people of Hong Kong are naturally enough asking for assurances that continuity and confidence will be maintained. Neither in Hong Kong nor anywhere else in today's troubled world can any government give a cast iron assurance about the future. But certainly we need to do all we can to meet Hong Kong's concerns.

That underlines the importance of our objective: a binding international agreement in which arrangements for Hong Kong's continuing prosperity and stability, based on a substantial degree of autonomy, would be formally recorded. We are looking for the clarity and the detail which is essential to give confidence to all those affected by the Agreement, in Hong Kong and elsewhere.

The success of such an agreement can never, as I have said, be absolutely guaranteed. Nor do I believe that it would be realistic to try to impose an external regulator on the freedom of the two sovereign states concerned. But history shows that international obligations are most likely to be observed when they coincide with the common interests of both parties. That is certainly the case over Hong Kong. Equally, these obligations are most likely to be observed when those two parties already enjoy good relations with each other. The fact that these good relations exist was brought home to me in Peking. In discussion of general international issues, I was struck by the number of subjects on which the British and Chinese Governments share very similar views.

At the conclusion of the negotiations over Hong Kong, if we are able to bring them to a successful conclusion, the international prestige of both countries would be at stake.

The Chinese Government, like our own, attaches the highest importance to their country's international reputation. Moreover, we should share a clear common interest that Hong Kong should continue to flourish. This would be an important additional incentive to maintain the agreement.

This brings me to the question of the acceptability of an agreement to the people of Hong Kong. Throughout our negotiations with the Chinese Government, our consultation with the people of Hong Kong has been - and it remains - a continuous process. It has taken many forms - our close contact with the Executive Council, Ministerial visits to the territory, the reception of delegations to London and attention to the views and opinions which reach the Hong Kong Government through many channels. The views expressed by the Hong Kong people will continue to be taken fully into account in our approach to the negotiations. This process of consultation has been intensified since my visit to the territory. We shall continue to use and to develop methods of carrying it forward which are appropriate to each stage of the negotiations. [In due course the Hong Kong people will have a full opportunity to express their views on the text of a draft agreement.]

There has been some suggestion that a referendum might have a part to play. On that, I have to say that there are very real drawbacks. Whatever method is adopted, when the time comes for the House to debate the draft agreement, the people of Hong Kong will have had a full opportunity to make their views known.

It is their future and their livelihood which is at stake. They have a right to know as soon as possible what arrangements will apply in Hong Kong after 1997. In particular I understand the concerns of the British nationals in Hong Kong - the great majority of whom are British Dependent Territories Citizens - and their wish to retain that nationality. I have to say that I do not believe that either this Parliament or a successor would favour changes which stimulated emigration from Hong Kong to the UK or elsewhere. That is a further reason why we are looking for arrangements which would allow Hong Kong people to enter and leave the territory freely and, at the same time, provide a secure future for them there. That must remain a prime objective.

In working for an agreement on Hong Kong's long-term future, we shall not lose sight of our responsibilities in the period before 1997. Until that time, we shall continue to provide the framework within which the Hong Kong government can administer the territory and plan for its future. Our intention is to protect Hong Kong's prosperity by making the transition as smooth as possible. (To ensure this, it is important that Hong Kong people should be in no doubt over where administrative responsibility lies.) Hong Kong is successful and we firmly intend it to remain so.

The Chinese government have made it clear publicly that they see the administration of Hong Kong, after 1997, as being in the hands of Hong Kong people themselves. This would follow a process of democratic development which I am glad to say is already under way, and which I expect to evolve further. During the years immediately ahead, the Government of Hong Kong will be developed on increasingly representative lines.

~~As regards timescale,~~ we are aware of the Chinese desire that an announcement about future arrangements for Hong Kong should be made in September. We are working to a programme in the talks which takes account of Chinese wishes but also of all our own requirements. The people of Hong Kong will need to know the terms of any agreement that may be reached and have time to express their views: and Parliament will wish to take account of those views when they come to debate the agreement. It is of course Parliament which must make the final decision. For the Government's part I can assure the House that we would not be ready to recommend a package which we believe would be regarded as inadequate. We are not seeking an agreement for its own sake, an agreement at any price. It is important to get the right agreement.

Let me sum up the position. I came away from Peking with the belief that a good deal of progress had been made. But the House should be aware that some major points still have to be resolved. I believe that there is a determination on the part of both governments to bring our work to a successful conclusion. Certainly we are working in good faith to that end. But a complex and challenging stage in the negotiations still lies ahead. We have some way to go. If we can succeed, we shall have achieved much. We shall have built a bridge of mutual confidence, spanning two nations and three societies. Our aim is clear: a binding agreement which will secure a high degree of continuity for Hong Kong under Chinese sovereignty: which will preserve the essentials of the present systems and way of life in Hong Kong: and which will be acceptable to the people of Hong Kong. It must be one which we can honourably commend to this House.

Healey

"A very large part of the ~~foreign~~ Hong Kong
popl^e favours Peking."

"New pragmatism"

↳ Comment: there is the main source
of capital in Hong Kong."

↳ If understandings are broken - no guarantee
no sanctions available.

"If date brought forward for 1997 -
so much the better"

"Some of the fed cuts may scrub away"

Fed 1972. "Taiwan - recognized as a province
of China?
Acceptability - gov is circumscribed,

HONG KONG

Debate in the House of Commons
on Wednesday 16th May 1984

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1. CONSTITUTIONAL AND POLITICAL BACKGROUND

1.1 Hong Kong consists of:

- (a) Hong Kong Island, ceded by China in perpetuity by the Treaty of Nanking (1842);
- (b) the Kowloon peninsula and Stonecutters' Island, similarly ceded in 1860 by the First Convention of Peking; and
- (c) the New Territories, which China leased to Britain for 99 years in 1898 by the Second Convention of Peking.

Its total land area is 1,064 square kilometres and it has a population of 5.3 million of whom 98% are Chinese. The New Territories account for approximately 92% of Hong Kong's total area and more than 50% of its total population.

1.2 Hong Kong is a Dependent Territory and the Secretary of State for Foreign and Commonwealth Affairs is responsible to Parliament for its government. The Territory is administered by a Governor, with the help of an Executive Council and a Legislative Council. As Hong Kong is a dependent territory, there is no British Embassy there. Our trade interests are dealt with by the British Trade Commission, which also covers trade with Macao. Included within the Commission is a China Trade Unit which is responsible for trade with China through Hong Kong.

1.3 The Governor, who represents the Crown, is the head of government and has the power to make laws (called "ordinances") for the "peace, order and good government" of Hong Kong. His authority derives from the Letters Patent and the Royal Instructions. The Crown reserves the power to disallow ordinances enacted in Hong Kong and to legislate for the Territory by Order in Council. In practice, no post-war British government has exercised this power. English common law and the rules of equity are in force in Hong Kong, extended and modified as necessary by local legislation.

1.4 The Governor is advised by an Executive Council (known as "EXCO") of 16 members, comprising:

- (a) 4 ex-officio members (the Chief Secretary, the Commander British Forces, the Financial Secretary and the Attorney-General); and
- (b) 12 other members appointed by the Governor, of whom 2 are Official (ie members of the Hong Kong Government) and 10 are Unofficial.

The Governor is required to consult EXCO on all major issues of public policy. He is not obliged to accept the advice he receives, but if he does not he must report his reasons to HMG.

1.5 The Governor legislates with the advice and consent of the Legislative Council (known "LEGCO") comprising:

- (a) 3 ex-officio members (the Chief Secretary, the Financial Secretary and the Attorney-General); and
- (b) a further 15 Official members and 29 Unofficial members nominated by the Governor.

The Governor has not acted against the views of LEGCO for many years. In the unlikely event that he should need to do so, he can appoint, on instructions from

the Foreign and Commonwealth Secretary, extra Official members from the Council. The Finance Committee of LEGCO, on which all Unofficial members sit, considers all proposals involving expenditure from public funds. A Public Accounts Committee considers the annual report of the Director of Audit and reports to the Governor.

1.6 By taking part in the process of government, Unofficial Members of the Executive and Legislative Councils (UMELCO) play a significant role in the administration of Hong Kong. They advise on the formulation of government policies, participate in the enactment of legislation, consider complaints by members of the public against government departments and monitor the effectiveness of public administration. Unofficial members are selected by the Governor from a wide spectrum of society and they hold more than 300 seats, outside the two councils, on various committees and boards dealing with public and community affairs.

1.7 By far the most significant political presence in Hong Kong is that of the Communist Chinese. There are a number of overt Communist organisations, including businesses, banks, trade unions and schools. They are tightly disciplined and controlled by the local party organisation appointed by Peking (headed by the Director of the local Office of the New China News Agency). These organisations have not attempted to play a direct role in Hong Kong's political affairs. While it remains the policy of Peking to maintain the stability and prosperity of Hong Kong, the Chinese Communist organisations in the Territory can be relied on not to undermine government policies. The activities of the Chinese Nationalists parallel those of the Communists but on a very much smaller, and diminishing, scale.

2. PARTICIPATION IN GOVERNMENT

2.1 The absence of democratic institutions in Hong Kong has given rise to protests in some quarters that the general public should have greater say in the way the Territory is run. Because of the Territory's special position vis-a-vis China, and the fact that 92% of it is held on a lease, there is no possibility of its ever becoming independent. The normal policy in Dependent Territories of encouraging local democratic procedures, as part of the process of moving towards self-government and ultimate independence, has therefore only applied in a limited way to Hong Kong.

2.2 The Hong Kong Government are aware of the need, because of these special circumstances, to devise ways of making the government more responsive to public opinion. In selecting Unofficial Members of the Executive and Legislative Councils, the Governor has endeavoured to make the Councils representative of as broad a cross-section of Hong Kong society as possible. A large number of official and unofficial advisory committees and community organisations have also been developed as channels of communication between the Government and the public, notably the District Boards in the urban areas and the New Territories.

3. THE ECONOMY

3.1 Much of Hong Kong is unproductive mountainland. About 16%, including areas reclaimed from the sea, is used for residential and industrial development. Only 9.4% of the land is farmed, producing vegetables, fruit, flowers, freshwater fish, pigs and poultry. There is a considerable fishing fleet of 5,000 boats, meeting over 90% of local demand for fish. Less than 3% of the population engage in farming or fishing.

3.2 Hong Kong's principal natural asset is its sheltered harbour, the only developed deep water port on the China coast. From the establishment of Hong Kong as a centre for Britain's Far East trade in 1841 up to about 1950, trade and

commerce was the main economic activity. Then, when the Korean War brought a slump in trade with China, it became necessary to develop other sources of income, particularly as the population had expanded rapidly with the influx of immigrants from China at the time of the Communist take-over. Hong Kong therefore turned to manufacturing, starting with textiles and clothing (which remain the dominant industries), but diversifying later to many other products, including plastics, electrical and electronic goods, scientific instruments, watches and photographic and optical equipment. The entrepot trade with China has re-emerged as a significant proportion of Hong Kong's trade in the last few years, and service industries have expanded rapidly as a consequence of rapidly growing domestic incomes and Hong Kong's development as an important financial and tourist centre in the region.

3.3 The management of Hong Kong's economy is based on commitment to market mechanisms and free enterprise. In 1983, the Gross Domestic Product was estimated HK\$206,890 million (approx. £18,800 million at 1983 rate of exchange) and per capita GDP was HK\$38,900 (approx. £3,540). In the ten years ending 1982 the growth rate of the GDP in real terms was 9.6%. The growth rate of real income per capita was affected by the considerable increase in population in 1978-80. Nevertheless, as a result of a growth rate of 7.4% in the 1970's, real income per capita by 1982 was more than twice that in 1972, (giving Hong Kong the highest per capita income in Asia, after Japan). Subsequently, the world recession meant a reduction in growth, which was only 1.1% in real terms in 1982. In 1983, however, the economy experienced an accelerating export-led recovery. Domestic imports increased by 14% in real terms over their 1982 level and the overall growth rate was 5.9%. The annual inflation rate is about 10% and the seasonally adjusted unemployment rate under 4%.

3.4 Hong Kong is almost totally lacking in natural resources and, relative to its population, is very short of usable land. The manufacturing sector is therefore completely dependent on imported raw materials, semi-manufactures and capital goods. Other sectors of the economy are almost equally dependent on imported inputs. The bulk of Hong Kong's requirements of foodstuffs and consumer goods is also imported. Thus the total value of Hong Kong's visible trading transactions is just on twice the value of the GDP, and much more than twice if invisible imports and exports are added in.

3.5 The value of Hong Kong's export of goods in 1983, including re-exports was HK\$160,703 million (approx. £14,600 million). Import of goods in 1983 totalled HK\$175,444 million (approx. £15,950 million) an increase of 23% over 1982.

3.6 There was a visible trade deficit in 1983 of HK\$14,741 million (approx. £1,300 million). However, trade in invisibles makes an important contribution to Hong Kong's balance of payments. In 1981 Hong Kong's surplus on invisibles was estimated at roughly HK\$9,241 million - over half of the visible trade deficit.

3.7 The balance of trade between the UK and Hong Kong is slightly in Hong Kong's favour. The British share of the Hong Kong market declined from over 11% in 1967 to only 4.2% in 1976, rose to 5.1% in 1979, and in 1983 stood at 4.3%. Hong Kong is now, with Japan, Britain's largest market in the Far East. British exports to Hong Kong in 1983 totalled £727 million (1982: £732 million), which put Hong Kong well ahead of China (£159 million in 1983) as a market for British goods. The real growth of UK exports to Hong Kong since 1979 has been 15% p.a. British imports from Hong Kong in 1983 totalled £1,178 million (1982: £872 million). This left a trade gap favouring Hong Kong of £451 million - up 60% from 1981. A substantial proportion of British imports from Hong Kong in recent years has consisted of textiles and clothing.

4. UK - HONG KONG RELATIONS

4.1 While in practice Hong Kong enjoys a considerable degree of autonomy in the management of its own affairs, particularly in the commercial, financial and economic sectors, its constitutional and, to some extent, its political dependence on Britain is accepted. It is appreciated that without the British connection Hong Kong in its present form would cease to exist. There is a continuing dialogue between HMG and the Hong Kong Government about how the two governments should best discharge their responsibilities for the welfare of the population of Hong Kong. None of the many and far-reaching changes that have been made in Hong Kong in recent years have been imposed from London: they have all been made with the agreement, and usually on the initiative, of the Hong Kong Government. However, it is acknowledged that, where UK interests are involved, the last word must rest with HMG.

4.2 Defence. The garrison in Hong Kong consists of five infantry battalions (four Gurkha and one British), a Gurkha engineering squadron, five naval patrol craft and two squadrons of helicopters. There is provision for ad hoc short term reinforcement. A new Defence Costs Agreement was signed in October 1980 and came into effect in April 1981. It will run for seven years initially, and will be renewable for further periods of five years on the same terms unless varied.

4.3 Nationality Act. The British Nationality Act, which came into effect on 1st January, provides for a separate category of "British Dependent Territories' Citizenship" (BDTC). Hong Kong, which was unhappy about the abandonment of the unitary Citizenship of the United Kingdom and Colonies (CUKC) would have preferred a title which emphasised more strongly the Territory's links with the UK. Amendments were, however, introduced in order to allay some of Hong Kong's fears over the Act, by permitting registration for BDTCs after five years' residence in the UK, and allowing discretionary registration by the Home Secretary of Dependent Territories' Crown servants and some others as British Citizens. It has also been agreed by HMG that BDTCs from all Dependent Territories should be described as "British Nationals" in their passports, although this does not reflect any change in their immigration status into the UK. HMG also agreed in August 1983 that the endorsements which were previously inserted in most BDTC passports, stating that the holder is subject to control under the Immigration Act, 1971, should be omitted and replaced by 'Holder has right of abode in Hong Kong' (or the relevant Dependent territory). About 3 million Hong Kong residents are BDTCs: the remaining 2.3 million are holders of Hong Kong residence permits which give no citizenship status under UK law.

5. THE FUTURE

5.1 The Chinese consider the Treaties relating to the cessation Hong Kong and the lease of the New Territories as "unequal treaties" forced on China during a period of internal weakness and they do not, therefore, recognise them. They have, however, hitherto regarded Hong Kong as a problem left over from history, to be settled when the time is right, and have been content to leave things as they are, particularly in view of the practical value of Hong Kong to them. Hong Kong is a valuable direct source of convertible currency (estimated at approximately 30% of total Chinese earnings of foreign exchange) mostly earned from foodstuffs, invisibles and remittances to relations in China.

5.2 During the Cultural Revolution, widespread unrest throughout China spilled over into Hong Kong, especially in 1967/68. The imprisonment of rioters in Hong Kong and the refusal to bend to Chinese pressure for their release led to the sacking of the British Mission in Peking. China now displays a much more relaxed

and pragmatic attitude towards Hong Kong and has been notably co-operative in recent years. There are substantial, and increasing, Chinese investments in Hong Kong and large numbers of Chinese officials in, for example, the New China News Agency (NCNA), the Bank of China and many trading and other organisations. The Hong Kong Government's regular contacts with the Chinese are relaxed and easy; there is close contact with the Shenzhen and Guangdong authorities on matters of mutual concern.

5.3 In 1982, the Chinese Government began to focus more closely on the question of the the future of Hong Kong. They publicly stated that they intended to "recover" sovereignty over the whole of Hong Kong, but that they wished to maintain its prosperity and stability. Useful contacts between the British and Chinese governments had taken place when Lord Carrington visited China in April 1981, and during the Lord Privy Seal's visit in January 1982. The process of consultation was stepped up during the Prime Minister's visit to China in September 1982, when it was announced that the two governments would hold talks through diplomatic channels with the common aim of maintaining the stability and prosperity of Hong Kong.

5.4 Meetings in Peking to follow up the Prime Minister's visit through diplomatic channels began soon afterwards and are continuing. In this second phase, fourteen rounds of talks have been held in Peking, the most recent on 9th and 10th May. The Governor of Hong Kong has been consulted throughout, and has participated personally in the talks since the beginning of the second phase.

5.5 Following his visit to Peking last month the Foreign Secretary, Sir Geoffrey Howe told a press conference in Hong Kong on 20th April:

"It would not be realistic to think of an agreement that provides for continued British administration in Hong Kong after 1997. For that reason, we have been concentrating on other ways of securing the assurance necessary for the continuity of Hong Kong's stability, prosperity and way of life".

The Foreign Secretary said that the Chinese government recognised the special circumstances of Hong Kong and that they wanted its social and economic systems and lifestyle to remain unchanged. The talks, therefore, were designed to secure arrangements that would give Hong Kong, after 1997, a high degree of autonomy under Chinese sovereignty, he added:

"During the years immediately ahead, the Government of Hong Kong will be developed on increasingly representative lines".

Public reaction to Sir Geoffrey's statement was cautious but relieved that the idea of the territory retaining its internal way of life had been made official. A drop in the Hang Seng stock exchange index appeared to reflect short-term speculation rather than any long-term lack of confidence and most businessmen welcomed the announcement as a basis on which to plan the future of their companies.