



Prelude to 1997: Notes on Hong Kong's Future under Governors Trench and Maclehoose

David Faure

The setting:

British withdrawal from East Asia from late 1950s

Cold War politics: no alternative to staying in Hong Kong

Brief for Secretary of State's meeting with the Governor of Hong Kong on 25th November 1959, submitted by Principal Officer, Far Eastern Department, Colonial Office, 23.11.1959, CO1030/769

Sir Robert Black will ask the Secretary of State to consider a grant of say, £2 million sterling to Hong Kong as a badly needed gesture to show Hong Kong that H.M.G. is not losing interest in it and is not on the way out....

It is the Governor's view that a succession of things, done or not done, by H.M.G. in the last two years has in some respects shaken confidence in the Colony in our intention to remain there. An impression has begun to be created that it is "expendible" [*sic*]. The main things are as follows.

Sir Robert considers that H.M.G. should take some action to restore confidence in Hong Kong. While any action must inevitably be expressed in financial terms, the reason for it would not be economic, but political. Sir Robert will ask the Secretary of State, and we support his request, for a grant from H.M.G. of, say £2 million to help the Colony with its refugee problem in the context of World Refugee Year.

The Secretary of State will recall that the idea for the World Refugee Year came from the “Bow Group” and was taken up by H.M.G. in the United Nations where it received overwhelming support. H.M.G. has decided to contribute £200,000 and it has indicated to the organisers of the World Refugee Year Committee in the U.K. that they would like to see one-third of this amount devoted to the needs of refugees in Hong Kong.

World Refugee Year would be an excellent pretext for the political gesture desired by Sir Robert Black. It would eliminate the difficulty of creating a precedent for requests from other territories. It presents a combination of unusual, perhaps unique, opportunities. First, World Refugee Year is itself universally recognised as a once-for-all operation. Secondly, Hong Kong is the only British Colony with a refugee problem and one recognised to be of appalling proportions. And thirdly, a gift of this magnitude could not fail to redound to Britain’s credit internationally.

Becoming autonomous

- Localisation
- Budgetary control
- Overseas representation
- Currency independence
- Local government

(1) Localisation

Financial Secretary in the Legislative Council, 1955

In going through the estimates, I find a figure in the region of \$4,500,000 [that was about 1 percent of the government's entire annual income at the time] set aside for the purpose of expatriation pay and a further sum of \$3,000,000 for transport of Government officers -- this latter sum being passages for officers and their dependents. Government has declared its policy of engaging more local personnel and I shall be a lot happier when I see greater vigour displayed in the implementation of this policy." *

* *Hong Kong Hansard* 1955, p. 78.

(2) Budgetary control

The government system of auditing is a complicated one. We have an audit not only here, but the Director General of Colonial Audit in London comes into this question and Honourable Members will be quite surprised at the very wide variety of audit queries that are raised in the course of the year, and the Audit Department, quite naturally, feel it their duty to look into all the details of every sort of agreement into which the government enters....

(Financial Secretary, rebutting comments made by Mr Lo Man-wai in a debate over the franchise for the Yaumati Ferry Company in 1951.)

Hong Kong Hansard 1951, p. 128.

- The fact that there has been no pressure for financial devolution from Hong Kong since 1949 may be because they have largely taken the law into their own hands, without, it should be noted, any comments from us so far.

Colonial Office minute, 1955

K.G. Ashton (Colonial Office), minute of 10.7.56, CO 1030/392

- The dispatch of 1948 at (1) brought to an end a period of Treasury control and was described by the Governor as a generous relaxation of control. For the last 2 or 3 years, however, practice has diverged widely from the doctrine in that dispatch, as follows:
- (a) The Annual Estimates are not seen in this office until they have been through the Legislative Council in Hong Kong and are practically unalterable.
- (b) Expenditure involving important points of principle is not always referred to the Secretary of State before being incurred: a notorious instance was the Tai Lam Chung dam, which was to be financed at a cost of H.K. 40 million from the Development Fund, the Governor decided late in 1953 to transfer the responsibility for that expenditure from the Development Fund to the General Revenue and to add another commitment to the General Revenue of H.K. 40 million to cover increased costs and an acceleration of the project; all this happened without our knowing much about it until we asked for details.
- (c) The Quarterly Statements received in accordance with paragraph 3(c) of the 1948 dispatch are not supplemented by more frequent statements as circumstances may require.
- (d) **We do not keep the Treasury informed of all important matters affecting Hong Kong finances, because we do not always know much about them ourselves.**
- (e) We are not kept as fully as possible informed of financial trends in the Colony (except through the Quarterly Statements) and consulted at an early stage regarding proposals for expenditure.

Governor in the Legislative Council, 6th March, 1958

I have to report a decision recently taken by the Secretary of State. He has approved a considerable relaxation in the financial control which he exercises over Hong Kong. In 1948 the Colony was released from Treasury control and given a large measure of autonomy over its own finances. The control which the Secretary of State still retained at that time was that his approval was required for the annual Estimates, for supplementary provisions exceeding \$1 million in the case of capital expenditure and \$¼ million in the case of recurrent expenditure, for the issue of any loan and for any expenditure involving important points of principle. **The Secretary of State has now informed me that, in view of the good standing, financial and administrative, of the Colony, he will further relax his control and will no longer require the Estimates to be submitted for his approval; nor will he require supplementary provisions to be authorized by him. On the other hand, he wishes to extend the principle of demi-official consultation which is already in use, and I have agreed that the Financial Secretary will keep the Finance Department of the Colonial Office regularly and fully informed about this Government's financial policy and about the way that this policy works out in practice. The Financial Secretary will take account of the views of the financial advisers of the Secretary of State in advising this Government on policy.**

This is a very important and considerable extension of our financial independence, and of course it brings with it its responsibilities.

Hong Kong Hansard 1958, p. 46.

Report of Director of Audit, 1972

- In December 1971, legislation was enacted which made statutory provision for the audit of the public accounts of the Colony, conferred upon the Director of Audit, Hong Kong, the independence normally accorded to Government Auditors, and provided for his appointment, tenure of office, duties and powers. The legislation became necessary as a result of the abolition of the post of Director General of the Overseas Audit Service who, assisted in London by a central establishment and in dependent territories by officers of the Overseas Audit Service had, for over sixty years, been responsible to the Secretary of State for the audit and certification of the public accounts of Hong Kong and other dependent territories. Consequent on coming into force of the Audit Ordinance, the Director of Audit, Hong Kong, assumed full responsibility for the audit and certification of the public accounts of Hong Kong, as well as the accounts of various statutory and other bodies and became responsible to the Governor, and through him to the Legislative Council and Secretary of State, for the performance of his duties.

(3) Overseas representation

- Export restrictions to UK and US from 1959
- UK attempted to join the Common Market in the 1960s, Hong Kong to be left out.
- Who should represent Hong Kong abroad?

CONFIDENTIAL

MEETING WITH THE DELEGATION OF THE HONG KONG ASSOCIATION ON MAY 3, 1963.

- Present:
- Sir Patrick Reilly (Foreign Office) in the chair
- Mr. Trafford Smith (Colonial Office)
- Mr. Burges Watson (Foreign Office)
- (Representing the Association)
- Mr. J. Scott (John Swire and Sons Limited)
- Mr. W.J. Keswick (Matheson and Company Limited)
- Mr. J. Shewan (The Chartered Bank)
- Mr. J.H. Hamm (Dodwell and Company Limited)
- Mr. H.J. Collar (Secretary of the Association)
- Sir Patrick Reilly explained that the Lord Privy Seal was very sorry that his present heavy programme had prevented him from seeing the members of the Association. Mr. Heath had therefore asked him to do so.
- 2. Mr. Scott described the position of Hong Kong during the United Kingdom's negotiations with the E.E.C.; her problem was what line to take in the light of the breakdown. If the United Kingdom's objective was still accession to the Community, should the Hong Kong Trade Mission, which was visiting European countries in the autumn, try to promote political contacts with E.E.C. countries as well as trade ones?

- 3. Sir Patrick Reilly explained that accession to the E.E.C. was still the objective of Her Majesty's Government. Meanwhile, as the Lord Privy Seal had said, the United Kingdom would not turn its back on Europe. However, there was no practical possibility of an immediate resumption of negotiations; it was most unlikely that General de Gaulle would withdraw his veto. Our working assumption was, therefore, that for the next few years it would not be possible to join the E.E.C. It was very difficult to put any precise figure to this period since the future was so uncertain: but it would probably be wise to assume that a resumption of negotiations was unlikely in the next three and perhaps five years. Meanwhile Her Majesty's Government attached much importance to maintaining close relations with the Community, in the hope of being able to influence it in the right direction. We were seeking to establish consultative arrangements to this end. The Five and the Commission were in favour, but the French were being obstructive. However, regardless of the French attitude, we should be able to maintain bilateral relations with members of the Community, e.g. through our bilateral economic committees. We were also strengthening our Delegations in Brussels. There was no doubt that our negotiations had made a considerable impact on the Community and we could now hope to have relations with it such as would have been out of the questions before we sought membership. He thought that it was fair to say that one effect of the Brussels negotiations had been to make the community think in broader terms. Mr. Collar commented that the French had shown signs of being more accommodating towards Hong Kong commercial interests, and Mr. Hamm said that the Community certainly knew more about Hong Kong now than they had before negotiations began.

- 4. Mr. Scott said that the Hong Kong Chamber of Commerce was planning to send a Trade Mission to the countries of the E.E.C. in the early Autumn. The Hong Kong Association would like to be able to advise the Hong Kong Chamber of Commerce on the following points. First, would it be wise for the Mission to try to see political figures in the countries visited as well as trade circles. **Secondly, should the Chamber of Commerce invite political personalities from the Community to visit Hong Kong, in addition to the large number of commercial visitors from E.E.C. Countries.** Thirdly, should the chamber of commerce be advised to pursue industry-to-industry trade agreements with European countries (e.g. between Hong Kong and European cotton industries).
- 5. Sir Patrick Reilly said that in general he thought it most desirable that Hong Kong should take every opportunity to put its point of view to the countries of the E.E.C. and to develop all possible contacts with them, on the assumption that the United Kingdom would eventually join the E.E.C. Her Majesty's Government for their part would of course continue to put Hong Kong's case to the E.E.C. Governments and to the Community as appropriate whenever opportunity arose. He would however like to consult our Embassies in the Common Market countries on the question whether the Trade Mission should contact political personalities and whether such people should be invited to Hong Kong in advance of the Mission's visit. He undertook to do this and he was sure that our Embassies would give the Mission all the help and advice they could. The question raised by Mr. Scott about industry-to-industry trade agreements was primarily one for the Board of Trade and the Foreign Office or the Colonial Office would arrange to consult them.

- Result
- By 1964, Hong Kong provided attachment to British Embassy in Brussels
- By 1965, Hong Kong had representative office in the US

(4) Currency independence

Sterling devaluation and the Hong Kong dollar

Sterling devaluation 1967

We have a genuine problem here. Her Majesty's Government in London is constitutionally responsible for our currency arrangements. It is indeed one of the subjects for which, according to the Royal Instructions, the Governor may not assent to a bill without the approval of the Secretary of State. In 1949, when sterling was last devalued, we were merely informed by telegram that the Hong Kong dollar had been devalued along with sterling. More recently we had been trying to find out for some time whether we would or would not be free to take our own decision in the event of a devaluation of sterling. The answer, in the affirmative, came only at 1.30 am on Sunday the 19th November, four hours before the devaluation of sterling was to be announced. We were thrown in at the deep end with a vengeance. In the existing constitutional conditions, we had certainly expected much earlier warning and substantial advice and assistance.

-- Financial Secretary, Hong Kong, in the Legislative Council, 29 Nov., 1967.

I sometimes wonder if it is fully appreciated what a momentous and indeed revolutionary decision we finally made on Wednesday night, with all its incalculable ramifications, to abandon a parity with sterling that had stood for 30 years, and to set at such short notice and with only a minimum of consultation possible, a permanent new relationship with the pound.... Over our whole history the Hong Kong dollar has been tied either to sterling or to silver. Dollars, sterling, gold or a mix all have their problems.... It is not going to be easy to choose between flexibility and stability. But I think I can make one claim – that the Hong Kong dollar came of age last week.

-- Financial Secretary, Hong Kong, in the Legislative Council, 29 Nov., 1967.

Sterling agreement 20 Sept., 1968, FCO 40/162

- The Government of the United Kingdom undertake to maintain the sterling value in terms of the United States dollar of the balance eligible for guarantee, provided that the Minimum Sterling Proportion referred to below has been maintained by Hong Kong up to and including the date of implementation of the Guarantee.

Sterling Agreement 1968

- The Government of the United Kingdom undertake to maintain the sterling value in terms of the United States dollar of the balances eligible for guarantee, provided that the Minimum Sterling Proportion referred to below [99 % of Hong Kong's reserves] has been maintained by Hong Kong up to and including the date of implementation of the guarantee.

We want our money 1968

- We note your request to raise the limit of borrowing permitted by the Exchange Fund from Hong Kong dollars 3,000 m to Hong Kong dollars 3,500 m or Hong Kong dollars 4,000m, and will give this very urgent consideration.
- Foreign and Commonwealth Office to Governor of Hong Kong, 16 May 1969

- I am disturbed by what you say, both in relation to our immediate problem and to the longer term implications. There was at no time any suggestion that the full 90 % guarantee contained in the UK guarantee agreement would not be available to Hong Kong and our arrangement with the commercial banks is based on this.
- Governor of Hong Kong to Foreign and Commonwealth Office, 19 May 1969

- We see no case for an increase in the non-sterling holdings of the authorised banks above their present working levels.
- Foreign and Commonwealth Office to Governor of Hong Kong, 19 May, 1969

- The Hong Kong and Shanghai Bank have decided to suspend further forward purchases of sterling against export contracts.....
- Governor of Hong Kong to Foreign and Commonwealth Office, 20 May 1969

Hong Kong dollar exchange

- 1863 – 4 November 1935 Silver Standard Silver dollars as legal tender
- December 1935 – June 1972
- Link to Sterling £1 = HK\$16 (December 1935 – November 1967)
- Link to Sterling £1 = HK\$14.55 (November 1967 – June 1972)
- 6 July 1972 Link to the US dollar with US\$1 = HK\$5.65
- 14 February 1973 Link to the US dollar US\$1 = HK\$5.085
- 25 November 1974 Free float Exchange rates on selected dates
 - US\$1 = HK\$4.965 (25 November 1974)
 - US\$1 = HK\$9.600 (24 September 1983)
- 17 October 1983 Link to the US dollar US\$1 = HK\$7.80

(5) Local government

**Sir David Trench to W.I.J. Wallace* 26.5.65, CO
1030/1620**

Dear Ian,

We have recently been giving some thought at official level, and very discreetly, to the general and interconnected issues of the future of the Urban Council, the administration of new towns in the New Territories of which Tsuen Wan raises the most immediate problems, and local government generally. A point has now been reached when I think I ought to consult you before proceeding any further, since the whole subject as well as being one of extreme complexity, is in one or two respects somewhat delicate.

*Assistant Under-Secretary of State, Colonial Office, with responsibility for Hong Kong and the West Indies.

While we are still under no particular pressure to introduce systems of local government in the rural New Territories, a decision will have to be taken fairly soon on whether to include Tsuen Wan in the area of the Urban Council's responsibility or not. A growing industrial city cannot remain indefinitely under a comparatively junior District Officer. The need to take this decision, however, raises in acute form the whole subject of the pretensions of the elected members of the Urban Council. Their ambitions appear to be headed towards increasing both the geographical and the functional scope of the Council, while also increasing the elected element in it. Finally, if they had their way, the Council might attain a position somewhat akin to a French Colonial style legislature containing an elected majority but with severely restricted powers. This, I suggest, cannot be tolerated and the time is coming when the elected members' ambitions must be circumscribed. To give them their due, they are politically wholly uneducated and I doubt if they have the faintest real notion of the implications of the courses they are bandying about. Equally, the lack of any lead on our part on where we are heading leaves the field clear to them - and at least they are trying to formulate some ideas.

The obvious way that first occurs to one of trying to get things back on a straight-forward course is to set firm geographical limits to the Urban Council and to reinforce these limits by setting up at least one or two other local authorities (one would do for this purpose). Having done this, the most immediate dangers could be more easily held in check, and one could more safely consider a measured evolution of the Urban Council in response to the demands for change (in some ways, not unreasonable demands) that are being made. By this I do not by any means intend to suggest that the Council should be a body with any very wide powers, which I would not advocate here, but only that it might perhaps be constituted on rather more orthodox lines and possibly with some expansion in its functions. It is not necessary, for the purposes of this letter, to go into how this might be done; the relevant points are that if the aim of setting some clear limits to the elected members' pretensions is achieved, the nature of the Council can be opened to reconsideration, which is now difficult; and, second that any changes affecting the Council in any way will be complex, hotly and openly debated, and accompanied by polemics.

W.S. Carter (Commonwealth Office) to P H Johnston (Ministry of Overseas Development), 25.11.68, FCO 40/237

Thank you for your letter LG68/14 of 15 November on the above subject [local government in Hong Kong]. This is the first intimation that we in the department have received that any such report [the “revised” Dickinson Report] as this was in the offing.

We shall have certain political considerations very much in the forefront of our minds when framing our views, eg. the probable reaction of the Chinese People’s Government, the dangers of a communist take-over of local authority institutions because of the apathy of the electorate (this nearly happened some years ago in the case of the Heung Yee Kuk in the New Territories). With these considerations in mind, my preliminary reaction is one of doubtfulness about giving greatly enhanced authority to an Urban Council retaining the same area of jurisdiction and (for other reasons than yours) about the proposal to hand over responsibilities in the extremely delicate field of primary and secondary education (where the communists are very active). I suspect that on full reflection the Hong Kong Government will have similar reservations.

A. T. Clark* to W.S. Wallace 25.1.69, FCO 40/237

Dear Bunny,

You wrote to the Colonial Secretary on 8 January (HKK 18/12) about Bill Dickinson's report of last March, about which you had doubtless heard from P.H. Johnston of ODM who has a copy. I am enclosing a copy now, which I must emphasize is Bill's own paper; he discussed aspects with many officers from the Governor downwards when drafting it, but it has still not been processed to the extent of even being an official basis for policy proposals.

The background is this: as you know, public comment and official examination of both the earlier Working Party Report and the Urban Council's own *ad hoc* select committee recommendations lapsed once 1967's confrontation gave every one other things to worry about. It seemed clear that once things settled down a fresh look would be necessary in the changed circumstances, and Dickinson was directed (working independently) to work out a possible alternative to large-scale change, based on improving existing institutions.

His solution, in sum, was to develop the Urban Council substantially and to create an embryonic local administration of Tsuen Wan.

*Administrative Officer, Government of Hong Kong, Director of Social Welfare 1.4 to 14.9.68.

Questions on local government reforms in the Urban Council, 2.9.69, Hong Kong, Urban Council, *Official Records of Proceedings*, 1969/70, pp. 182-4.

- Mr Hilton Cheong-leen asked the following question:
- (a) Can the Chairman of the Local Administration Select Committee advise this Council what steps have been taken to bring to the Colonial Secretary's attention the Urban Council's views on the Revised Dickinson Report?
- (b) What steps have been taken, and will continue to be taken, to bring to the attention of the Colonial Secretary and other interested parties the contents of the Urban Council's Revised Report on Local Government?
- (c) Can the Chairman of the Local Administration Select Committee inquire from the Colonial Secretary when the contents of the Revised Dickinson Report will be made public so that the Urban Council's views on such report can at the same time be made available to the public?

- Mr A. de O. Sales, Chairman of the Local Administration Select Committee, replied as follows:
- Taking parts (a) and (b) together, a combined English and Chinese version of the Urban Council's Second Report on the Reform of Local Government was printed and put on sale to the public in May of this year, and copies were also sent to the Heads of all Government Departments, to the press and radio, and to many other interested parties. In July, a Table of Comparisons between this Council's Report and the Revised Dickinson Recommendations was sent to the Secretariat with the request that permission should be given to publicizing the Table of Comparisons.
- As regards part (c), in a reply dated 31st July, the Secretariat pointed out that the Dickinson Report was a confidential document, and regretted that it could not be made public. This reply was conveyed in writing to the Local Administration Select Committee on 2nd August, and it would seem that the Council is bound to treat the Table of Comparisons as confidential also, however much we may regret in this Council that such a measure prevents further public discussion of such an important issue, at least for the present.
- Members will agree with me that a categorical statement from the Government is expected. Enough time has passed for a decision to be made on the form which local government will take. Is it to be "frozen"? Or, is orderly development to be encouraged? These and kindred questions remain to be answered.

- Mr Cheong-leen: Mr Chairman, why is the Dickinson Report a confidential document?
- Chairman: This was a Report made to the Government, as you well know, Mr Cheong-leen, and, in fact, the Local Administration Select Committee recognized this fact when they prepared their last report.
- Mr Sales: Mr Chairman, may I say that the Local Administration Select Committee recognized the fact, but did not accept it.
- Mr Cheong-leen: Mr Chairman, can you draw to the attention of the Colonial Secretary the statement, which is attributed to Lord Acton, that “everything secret degenerates, nothing is safe that does not show it can bear discussion and publicity,” and ask him to be good enough to supply a copy of the Dickinson Report to members of the Local Administration Select Committee?
- Chairman: I am afraid I would not be prepared to do that, Mr Cheong-leen. As you know it was ruled that you could not have a copy originally, and I am sure that the rule will still stand. I can make enquiries, but I would not recommend, coming from myself, that it be made available.

- Mr Cheong-leen: In making enquiries, Mr Chairman, would you also send up a transcript of that portion of this Council's meeting which has reference to the answering of this question and the supplementary questions and your answers?
- Chairman: Yes, Mr Cheong-leen.
- Mr Cheong-leen: Now, Mr Chairman, can you also enquire from the Government when is a categorical statement from the Government expected on both the Dickinson Report and on the Urban Council's revised report?
- Chairman: I shall make enquiries.
- Mr Hu: Mr Chairman, am I wrong in thinking that about eighteen months or so ago we did receive a green copy of a report called the Dickinson Report? Is that the Report that you referred to as confidential?
- Chairman: We are talking about a second report, Mr Hu, of which you received only a summary of the recommendations.
- Mr Hu: We did not receive the detailed report?
- Chairman: No, not Mr Dickinson's report.
- Mr C. K. Chan: Mr Chairman, is that summary of the recommendations confidential?
- Chairman: I think it was, Mr Chan, and, certainly, for Members of the Council at that time it was.

Sir Murray Maclehoose (Lord Maclehoose), governor 1971-82: The Platform

- Housing: 10 years ... there will be sufficient permanent self-contained accommodation in a reasonable environment for every inhabitant of Hong Kong.
- New towns to have good communication (roads), essentials of modern life (medical facilities and schools, parks and playgrounds, police, markets, fire and ambulance facilities, community centres)
- Free primary education, 3 years of post-primary education for 50 percent of all children
- Increase university places from 6,000 to 8,400, plus 8,000 part-time and 20,000 full-time students in the Hong Kong Polytechnic
- 4.25 beds per 1,000 in the population, dentistry
- Expand social service for disabled, elderly, chronically sick, widowed mothers with young infants ... social security
- ICAC

The story unravels

中华人民共和国对外贸易部

(Translation)

Peking, February 9, 1979

Sir Crawford Murray Macle hose
Governor of Hongkong

Sir,

I wish to express to you my thanks for the friendly hospitality you extended to me on my stop-over in Hongkong last December. With great pleasure I now invite you, Sir, and your wife to come to China for a friendly visit in the spring of 1979. The specific time of your visit may be determined through consultations by our two sides. I warmly look forward to your coming visit.

Please accept, Sir, the assurances of my highest consideration.

LI QIANG

Minister of Foreign Trade
People's Republic of China

中华人民共和国对外贸易部

香港总督

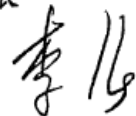
麦理浩爵士：

去年十二月我途经香港时，曾受到阁下的友好接待，借此机会向你表示感谢。现在我高兴地邀请阁下和夫人于今年春季来我国进行友好访问。具体来访时间双方另行商定。我热切地期待阁下的来访。

顺致敬意。

中华人民共和国

对外贸易部部长



一九七九年二月九日于北京

GR 200

SECRET

SECRET

FM F C O 081225Z FEB 79

TO PRIORITY HONG KONG

TELEGRAM NUMBER 125 OF 8 FEBRUARY

INFO PRIORITY PEKING

442 026/3

No	Mr 14	↓
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See. (14) (16)

YOUR TELNOS 140, 159 AND 200 AND PEKING TELNO 109; INVITATION TO VISIT PEKING

1. I THINK YOUR VISIT SHOULD TAKE PLACE IN THE LAST WEEK OF MARCH, THUS LEAVING A REASONABLE GAP BEFORE MY OWN VISIT DURING THE PERIOD 7-17 APRIL.
2. I ALSO AGREE THAT DURING YOUR VISIT YOU SHOULD TAKE PRELIMINARY SOUNDINGS ABOUT THE PROBLEM OF THE LEASES, ON THE LINES OF PARAGRAPH 4 OF YOUR TELNO 200. WE SHALL BE DECIDING IN THE LIGHT OF YOUR RECOMMENDATIONS HOW TO PLAY OUR HAND AND IN DUE COURSE HOW I SHOULD MOVE MATTERS ALONG DURING MY OWN VISIT. MEANWHILE IF THE CHINESE ASK AGAIN FOR AN ADVANCE INDICATION OF THE TOPICS WHICH YOU WISH TO RAISE YOU SHOULD SAY THAT YOU WILL LET THEM KNOW A FEW WEEKS BEFOREHAND (WE NOTE THAT THE NCNA HAVE ALREADY ASKED ABOUT THIS). IT WOULD BE HELPFUL TO HAVE AN EARLY INDICATION OF THE OTHER SUBJECTS WHICH YOU THINK APPROPRIATE FOR DISCUSSION IN PEKING. WE ASSUME THAT THESE WILL INCLUDE IMMIGRATION AND, IF ONLY BECAUSE LI QIANG IS TO BE YOUR HOST, TRADE QUESTIONS.

OWEN

HKGD
 FED
 PS
 PS/LORD GORONWY ROBERTS
 PS/PUS
 SIR A. DUFF
 MR. CORTAZZI
 MR. MURRAY
 MR. RUSHFORD, LEGAL ADVS.

SECRET

DWF G 079/30

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SECRET

FM PEKING 300707Z MAR 79
TO IMMEDIATE FCO
TELEGRAM NUMBER 345 OF 30 MARCH 79
INFO IMMEDIATE HONG KONG

PERSONAL FOR CORTAZZI

YOUR TELNO 212: NEW TERRITORIES LEASES

AT HIS MEETING WITH THE GOVERNOR ON 29 MARCH, DEM
XIAOPING LAUNCHED STRAIGHT INTO THE ISSUE OF THE FUTURE OF
HONG KONG. HE SAID THAT CHINA HAD A CONSISTENT POSITION THAT
SOVEREIGNTY OVER HONG KONG LAY WITH CHINA. BUT HE
ACKNOWLEDGED THAT HONG KONG HAD ITS OWN SPECIAL STATUS.

Original at: HK 00/1 (52)
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Information only / Action on
Parat.)

Mr Cortazzi.

HK 026/3
23 APR 1979
No 223.4 8

1997 WAS STILL 18 YEARS AWAY, AND DISCUSSIONS MIGHT BE HELD BEFORE THEN ACCORDING TO THE CIRCUMSTANCES PREVAILING. ANY SOLUTION WOULD HAVE AS ITS PREREQUISITE THAT HONG KONG WAS PART OF CHINA. NEVERTHELESS IT COULD BE SAID "WITH CERTAINTY" THAT THE DISCUSSIONS WOULD RESPECT THE SPECIAL STATUS OF HONG KONG. IN VIEW OF THE CONCERN OF PEOPLE ABOUT INVESTMENT HE WISHED TO GIVE AN ASSURANCE THAT EVEN WHEN THERE WAS A POLITICAL SOLUTION, IT WOULD NEVER AFFECT INVESTMENTS. DENG THEN DREW AN ANALOGY WITH TAIWAN AND MACAO AND, ON THE FORMER, AFFIRMED THAT CHINA WOULD RESPECT TAIWAN'S SPECIAL STATUS AND WOULD NOT CHANGE ITS SOCIAL SYSTEM OR AFFECT ITS LIVING STANDARDS. THE ISLAND COULD ENJOY LOCAL AUTONOMY AND HAVE ITS OWN ARMED FORCES ALTHOUGH IT WAS PART OF CHINA. BUT THERE COULD NEVER BE TWO CHINA'S OR ONE AND A HALF CHINA'S.

THIS POLICY APPLIED TO HONG KONG AND MACAO ALSO. THE REASON FOR THE ASSURANCE ON SPECIAL STATUS WAS SIMPLE. CHINA NEEDED HONG KONG AND THE POLICY WAS BENEFICIAL TO SOCIALIST CONSTRUCTION.

2. AFTER INITIAL REMARKS ABOUT THE GOOD COOPERATION BETWEEN HONG KONG AND CHINA AND THE NEED FOR CONTINUING INVESTMENT IN NEW LAND IN THE NEW TERRITORIES, THE GOVERNOR REFERRED TO THE LEASES ISSUE. HERWAID THAT THE LONG TERM FUTURE WAS A MATTER BETWEEN THE CPC AND HONG. THERE WAS HOWEVER THE IMMEDIATE PROBLEM OF INDIVIDUAL LEASES IN THE NEW TERRITORIES, WHICH WOULD NOT WAIT. AS THE LENGTH OF THESE LEASES SHORTENED INVESTMENT OF THE RIGHT TYPE WOULD BE DETERRED. THE MATTER WAS NOT RELEVANT TO CHINA'S UNDERLYING POSITION ON HONG KONG, BUT INCREASED HIS OWN PROBLEMS. IF THIS QUESTION COULD BE SOLVED THEN INVESTMENT COULD BE ATTRACTED WHICH WOULD KEEP HONG KONG COMPETITIVE IN WORLD MARKETS. SUCH A SOLUTION WOULD BE OF BENEFIT TO THE UK AND CHINA.

3. AFTER A DISCUSSION OF POINTS ARISING ON IMMIGRATION AND INVESTMENT, WHICH WE WILL BE REPORTING SEPARATELY, DENG REVERTED TO THE LEASES ISSUE AND ASKED THE GOVERNOR TO TELL INVESTORS TO "PUT THEIR HEARTS AT EASE". THE GOVERNOR REPLIED THAT THE PROBLEM COULD NOT BE GOT OVER BY GENERAL ASSURANCES. HIS PROPOSAL WAS TO REPLACE A SYSTEM OF LEASES VALID UNTIL JUNE 1997 BY LEASES WHICH WERE VALID AS LONG AS BRITAIN ADMINISTERED THE NEW TERRITORIES. THIS WOULD REMOVE THE QUESTION OF THE DATE.

4. DENG'S IMMEDIATE REACTION WAS THAT ANY WORDING SHOULD AVOID MENTION OF BRITISH ADMINISTRATION, IN VIEW OF THE CHINESE POSITION. HE COULD NOT CONFIRM THAT THE POLITICAL SITUATION WOULD REMAIN UNCHANGED, BUT APPEARED TO BE REASSURED BY THE GOVERNOR SAYING THAT HIS PROPOSAL DID NOT AFFECT THE CHINESE POSITION. THE GOVERNOR REPEATED THE CONCERN OF INVESTORS ABOUT THE DATE OF LEASES. DENG REAFFIRMED THE CHINESE POSITION. HE SAID THAT, " TO PUT IT MORE PLAINLY", IN THIS CENTURY AND EVEN AT THE BEGINNING OF THE NEXT CENTURY HONG KONG WOULD STILL BE CONTINUING WITH ITS CAPITALIST SYSTEM WHILE CHINA WAS GETTING AHEAD WITH ITS SOCIALIST SYSTEM. THERE WERE TWO POSSIBLE SOLUTIONS IN 1997, TO TAKE OVER HONG KONG OR TO RECOGNISE PRESENT REALITIES. NEITHER SOLUTION WOULD AFFECT INVESTMENT. AFTER THE GOVERNOR HAD MADE CLEAR THAT HIS PROPOSAL DID NOT AFFECT THE CHINESE POSITION AND REQUIRED ONLY THAT THEY DID NOT OBJECT TO ITS IMPLEMENTATION, DENG APPEARED TO RECOGNISE THAT IT REQUIRED NO ACTION ON THEIR PART. (CUI MINGTANG OF THE MFA INTERVENED TO STRESS THAT ONLY THE REMOVAL OF THE DATE IN INDIVIDUAL LEASES WAS REQUIRED.) DENG CONCLUDED BY SAYING THAT THE KEY POINT WAS FOR INVESTORS TO FEEL EASY.

5. IN THE AFTERNOON THE GOVERNOR SAW THE FOREIGN MINISTER HUANG HUA. HE GAVE HIM AN ACCOUNT OF THE DISCUSSION WITH DENG IN THE MORNING, EMPHASISING THAT THE ACTION PROPOSED WOULD NOT CONTRADICT THE CHINESE POSITION ON HONG KONG AND SAYING THAT DENG HAD NOT APPEARED TO OBJECT TO THIS POINT. HUANG, WHO DID NOT SEEM TO BE FULLY BRIEFED ON THE SUBJECT, STONEWALLED BY SAYING THAT THE LEASE STILL HAD 18 YEARS TO RUN AND THAT THE MATTER WAS NOT URGENT. WHEN THE GOVERNOR POINTED OUT THAT THE MATTER WAS NOT ONE OF THE NEW TERRITORIES LEASE AS SUCH BUT OF INDIVIDUAL LAND LEASES, HUANG SAID IT WAS SOMETHING THAT WOULD HAVE TO BE CONSIDERED AND THAT DENG HAD ALREADY GIVEN DETAILS OF CHINA'S "PRINCIPLED STAND" ON THE HONG KONG QUESTION. THE GOVERNOR REMARKED THAT DENG'S COMMENTS HAD BEEN FAVOURABLE.

6. THE GOVERNOR LATER SAW LIAO CHENGZHUI (WHO HAS PARTICULAR RESPONSIBILITIES FOR HONG KONG). THE CONVERSATION WAS GENERAL AND VERY FRIENDLY. THE GOVERNOR REFERRED TO THE CONVERSATION WITH DENG, SAYING THAT, WHILE HE UNDERSTOOD THE LATTER'S POSITION ON THE LONG TERM FUTURE, HE WAS GLAD THAT DENG ALSO UNDERSTOOD HIS OWN PROBLEMS IN THE MORE IMMEDIATE FUTURE. LIAO SAID THAT HE COULD NOT GO FURTHER THAN DENG, AND THAT THE MATTER REQUIRED STUDY, BUT INDICATED OPTIMISM ABOUT THE SOLUTION OF BOTH THAT AND SHORT TERM PROBLEMS.

CRADOCK

Des R. H. H.

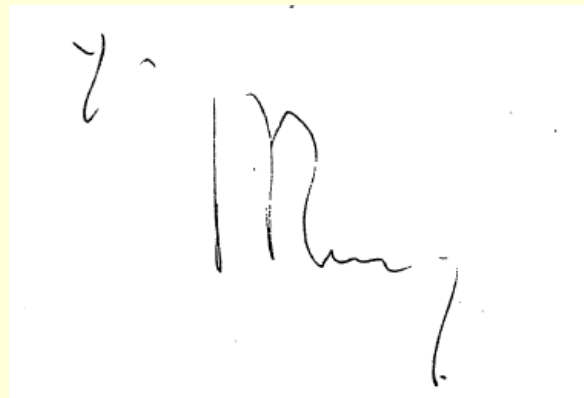
VISIT TO CHINA AND THE LEASES

5. The meeting with Deng produced a new statement on the future of Hong Kong of great clarity which should be carefully studied. In the short term obviously no move of any sort is contemplated and they were vague as to whether one might be made before or after 1997. This is what one would expect though not necessarily what one would have expected to be said so clearly at a formally recorded meeting.

6. But in the long term - and this is new - Deng sees Hong Kong's future as being under Chinese sovereignty and with some political change, but with its economic life and security of investment assured by a special status.

- b) I must reconsider what reaction here would be to a statement on Hong Kong's future prospects along the lines made by Deng. It is necessary firstly because it seems likely that this formulation will become known in some way and we must be ready with the right response; secondly because if we conclude its affect would not be seriously adverse, it might help the lease exercise to suggest it was made simultaneously. But my present strong instinct is to avoid precipitating formal public endorsement of such a statement for several years to come.

14. Meanwhile in replying to any low level comments about land leases I suggest we blandly take the line that Deng defined the Chinese position in a very helpful way, and that we can be trusted to handle this short term measure in a way consistent with his comments. As he said, the important thing was firstly not to contradict the Chinese long term position, and secondly to maintain investment. We entirely agree and will act accordingly.

A handwritten signature in black ink, appearing to be 'Z. Meng', written on a white rectangular background.

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FM HONG KONG 061126Z APR 79

TO IMMEDIATE F C O

TELEGRAM NUMBER 444 OF 6 APRIL

INFO IMMEDIATE PEKING

INFO PRIORITY HONG KONG GOVERNMENT OFFICE LONDON

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THE GOVERNOR HELD ONE-HOUR PRESS CONFERENCE TODAY (FRIDAY) BEFORE LARGE GROUP OF LOCAL AND OVERSEAS JOURNALISTS GIVING HIGH-LIGHTS OF HIS TEN-DAY VISIT TO CHINA.

2. HE BEGAN WITH A DETAILED OPENING STATEMENT. (FULL TEXT IN MIFT.) THE QUESTIONS CONCENTRATED MAINLY ON LEGAL AND ILLEGAL IMMIGRANTS FROM CHINA AND WHAT COULD BE DONE TO STEM THE FLOW. THE GOVERNOR REITERATED THAT CHINESE OFFICIALS WERE SYMPATHETIC TO HONG KONG'S IMMIGRATION PROBLEMS AND HAD SAID THAT MORE WOULD BE DONE TO RESTRICT THE FLOW. HE ADDED THAT HE HAD NO DOUBT MORE WOULD INDEED BE DONE BY THE CHINESE AUTHORITIES BUT IT WAS IMPORTANT THAT ACTION SHOULD TAKE EFFECT QUICKLY. IT WAS A MUTUAL PROBLEM WHICH SHOULD BE SOLVED BY CO-OPERATION.
3. REPLYING TO A QUESTION ABOUT WHETHER CHINESE REPRESENTATION IN HONG KONG HAD BEEN RAISED, THE GOVERNOR SAID THAT IT HAD BEEN RAISED IN THE PAST AND HAD BEEN REFERRED TO AGAIN AS SOMETHING WHICH WOULD BE MENTIONED IN FUTURE. SPEAKING PERSONALLY, HE HAD SAID THAT PRESENT ARRANGEMENTS WERE WORKING WELL AND THAT HE DID NOT SEE ANY NEED FOR FORMAL REPRESENTATION AT PRESENT. THIS WAS WHAT MR CORSLAND HAD SAID IN 1976.
4. ONE QUESTIONER ASKED WHETHER THE NEW TERRITORIES LEASE WAS BROUGHT UP. THE GOVERNOR SAID THAT HIS VISIT MUST BE SEEN IN ITS PROPER CONTEXT. "IT WAS A GOODWILL VISIT AND NOT A NEGOTIATING VISIT. IT WOULD NOT HAVE BEEN AN APPROPRIATE OCCASION TO RAISE THE LONG TERM FUTURE OF HONG KONG".

5. WHEN



SECRET

(86)

布政司署
香港下亞厘畢道

GOVERNMENT SECRETARIAT
LOWER ALBERT ROAD
HONG KONG

PERSONAL

20 April, 1979.

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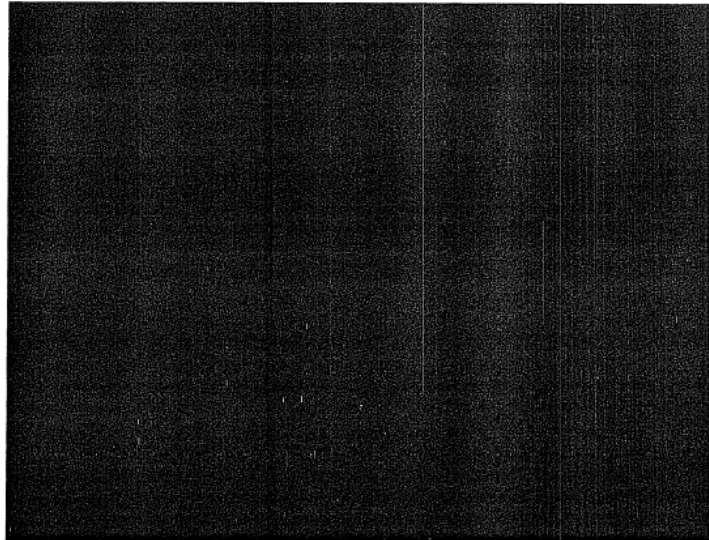
R J T McLaren Esq
Hong Kong & General Department
F C O

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THE GOVERNOR'S VISIT TO CHINA: NEW TERRITORIES LEASES

As you know, we have kept to a very small circle here any discussion of the New Territories leases issue. Similarly we have been very restrictive about the records of discussion in Peking where this topic was mentioned (i.e. the discussions with Deng Xiaoping, Huang Hua and Liao Chengzhi). It follows naturally that, in briefing local members of the Consular Corps, let alone the press, we have been equally reticent. Peking have, I know, followed the same line.



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Wilson
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(D C Wilson)

DISTRICT ADMINISTRATION

139. And, now I come to the Green Paper on District Administration. Its theme is consultation and participation. The main proposals are well known to honourable Members and I will not repeat them here.

HONG KONG LEGISLATIVE COUNCIL—1 October 1980

140. They have provoked thoughtful comment and this has been carefully recorded and studied. It will of course not be complete until honourable Members' own comments have been made later in the debate, after which a White Paper will be drafted. I cannot anticipate what the contents or recommendations of that White Paper will be, but from reading the comments on the Green Paper there does appear to be universal agreement on the need for more emphasis on district administration, consultation and participation, so I am encouraged that we are heading in the right direction. Discussion and criticism have focussed on whether the powers of the District Boards will be sufficient to command interest, and on the proportion of elected to appointed members and whether there should be direct election to District Boards in the Urban areas as well as the New Territories. I note that while there is much support for the principle of adding an elected element, there is also support for the retention of appointed membership as well. There appears to be a very large measure of support for elections on a constituency rather than a territory-wide basis, and indeed it does not seem possible to achieve the local focus aimed at by any other means. Some advocate retaining the ten City District Offices rather than amalgamating two districts on each side of the harbour. 21 has generally been supported as the right age for voting rights though some have argued for both higher and lower ages, and some also for educational qualifications. But I note a wide band of opinion which considers three years' residence too little in the present circumstances of Hong Kong. Some have argued that there should be more stringent qualifications for candidates than voters. Honourable Members will also have noted counter proposals for a two-tier electoral system in the Urban Area which would retain the existing territory-wide