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PART 2/2



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M. Appleby 8.6.96.*

MR APPELEYARD

MISC 140: DRAFT PAPER ON HONG KONG

I submit the draft paper, rewritten along the lines we discussed.

*D. G. Manning*  
D. G. MANNING

17 August 1989

*Further amended in the light of Mr Appleyard's suggestions*

*21/vii*

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## CONTINGENCY PLANNING FOR HONG KONG

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15/8/89?

### INTRODUCTION

1. This paper examines the scenarios that might prompt a large scale exodus from Hong Kong in the period up to 1997 or thereafter. It addresses the problems that such an exodus would pose, and the measures that would be needed to deal with them. This includes evacuation by both civil and military means, and arrangements for the reception and resettlement of refugees. Since the numbers involved would be far too great for the United Kingdom to handle alone, the paper considers what arrangements should be made to ensure that the international community would share the burden. The paper makes clear that, even allowing for international cooperation, the costs of an exodus to the United Kingdom Exchequer would be likely to be very great.

2. Plans to deal with a large scale exodus must be tailored to cope with the scenario of a sudden crisis. However, the greater the warning of an impending exodus, the greater the likelihood that contingency planning could be implemented smoothly and effectively. The paper therefore also examines the question of monitoring the flow of those leaving Hong Kong, and arriving in the United Kingdom, in the hope that such monitoring would alert Ministers to any progressive haemorrhaging of confidence that led to increasing emigration from the territory. A press line is proposed for use in the event of an imminent or sudden exodus. Finally, the paper suggests how the whitehall machinery might best be tuned to keep the possibility of a large scale exodus under review, and to react if such an exodus were to appear imminent or were to materialise with little or no warning.

### SCENARIOS: PRE-1997

3. There are essentially two pre-1997 scenarios which contingency planning will need to address:



a. a steady ebbing away of confidence, culminating in rising panic or economic collapse

If the confidence of the people of Hong Kong is not restored, there will inevitably be an increasing outflow of capital and talent from the territory. The rate of emigration would be limited only by the availability of places in the destination countries. Investment in the territory would dry up. Property values would decline. The stock market would be increasingly vulnerable to panic selling. Against this background, even a relatively minor event could trigger economic collapse and panic amongst the community, leading to a major exodus.

b. panic provoked by further developments in China

Hong Kong people will from now on be even more sensitive than before to developments in China, such as a repetition of the brutal use of military force against Chinese civilians; the unleashing of a campaign of terror and repression against sections of the population; or the breakdown of order in China leading to civil unrest or civil war. Such developments, singly or in combination, could cause panic in Hong Kong. Alternatively, the Chinese Government might issue verbal threats against the territory or even take some threatening action, such as massing troops on the border. None of these gestures would in any sense serve China's own wider interests, but the Chinese might nevertheless resort to them for domestic political reasons or if they were alarmed by developments in the territory.

4. These two broad scenarios are not necessarily distinct. A combination of them, or elements of them, might also occur. In any case, the closer we come to 1997, the more vulnerable Hong Kong will be to panic triggered by even a relatively minor event which could in turn lead to very large and unmanageable numbers of people trying to leave.



## SCENARIOS: POST 1997

5. The risk of a panic exodus is arguably greater in the period before 1997, as people would be motivated by the desire to get out before (as they would fear) the doors closed after the transfer of sovereignty. If we managed to get through 1997 without such a disaster, there would nevertheless probably be a steady haemorrhage of people leaving Hong Kong. But two further possible post 1997 scenarios would need to be considered:

### a. Internally generated panic

Under this scenario, Hong Kong would already have been seriously weakened by years of emigration of its brightest and best and by the thinning out of international investment in the territory, and further demoralised by the transfer of sovereignty. In a deteriorating situation, Hong Kong's inhabitants would judge that the Joint Declaration was not working: this might be because of increasing Chinese interference; because of growing corruption in the territory; or because of a perception that Britain and the rest of the international community were no longer willing or able to do much to help. In these circumstances, despair could turn to panic, particularly if people lost confidence in the promise of freedom of movement in the Joint Declaration.

### b. Panic provoked by China

Any of the developments outlined in paragraph 3b. above could equally well occur after 1997, with the same devastating effect on confidence. But after 1997 the risk (and fear) of direct Chinese interference in Hong Kong's affairs would be substantially greater.

6. There are more imponderables in these post 1997 scenarios. In particular, we do not know what attitude the Chinese authorities would take in the event of a mass exodus. They might try to impede departures or they might allow it to happen. Under certain circumstances they might even encourage those they deem to be troublemakers to go.



## EVACUATION

7. In the event of a mass exodus, the problem of evacuating very large numbers of people would be likely to be formidable. Both civil and military assets would probably need to be employed.

## CIVIL EVACUATION BY SEA

8. Sea travel would in the main have to be by passenger cruise ships. If four Chinese owned vessels are discounted, the entire remaining world fleet of 143 suitable cruise ships can be considered as potentially available for the task, given sufficient time and inducement. These ships sail under 21 flags including those of three Eastern Bloc states (details at Annex A). All ships, even those under the British flag, would have to be chartered at the rates prevailing at the time, which would be affected by the demand generated by the operation itself. It is reasonable to assume that most Western operators would be willing to make some or all of their ships available at the right price and under the right conditions, which would probably include guarantees that the ships would be returned to normal service after a certain period; that the British Government would accept liability for all consequential claims (eg for spoiled or cancelled cruises); and that the Government would bear the cost of refitting the ships at the end of the operation. The attitude that Eastern Bloc countries would adopt to a request to charter their cruise ships for this purpose is uncertain.

9. Cruise ships could reach Hong Kong within about 4 weeks from any of the cruising grounds. Annex B shows the number of ships and berths which could be available in Hong Kong from their normal cruising zones within 1, 2, 3 and 4 weeks of concluding charters, based on 1988 figures. The cruising patterns change slowly from year to year: if anything, they will gradually become more favourable (producing more ships closer to Hong Kong) as the Pacific cruise industry grows.



10. The passenger up-lift per ship and per unit of time will depend critically on the distance to their first destination. Ships making the 300 mile passage to Taiwan should be able to carry (say) 5 x their normal passenger complement and could make one round trip every three days (including loading/unloading). On the same basis, if the destination were Subic Bay (Philippines, 550 miles) ships could carry 3 x their normal complement and could make a round trip in four days. On the passage to Darwin (2400 miles) ships would be limited to only 1.5 x their normal passenger load, one round trip taking 14 days. (For total lift figures, see Annex C). Unless it was a matter of saving lives or refugees, the flag states of the vessels involved would have to grant exemptions from their safety regulations. For British ships the passenger overloads quoted could be permitted by the Secretary of State for Transport granting waivers as an emergency measure, and would depend on the ships carrying additional life jackets and life-saving equipment. The quantities required would have to be found all over the world. The operation could be severely hampered during the typhoon season between May and December (maximum frequency, July to October).

11. In a dire emergency the capacity offered by cruise ships could be supplemented by any other ocean-going vessels which were available: eg freighters and container ships could carry substantial numbers of refugees (1000 plus per ship) on their upper decks over the short distances to Taiwan or Subic Bay, in great discomfort and with minimal protection from the elements. The problem of providing even basic shelter, food, water and sanitation would rule out their use on longer voyages. Most of the non-Chinese owned ferries available in the area would not be considered seaworthy for voyages of these durations.

12. The costs of chartering cruise ships would vary according to size of vessel (from 500 to 1600 passenger berths): £200,000 per ship per day has been taken as a rough average, to include the costs of fuel and food. This could be an under-estimate, depending on supply and demand for cruise ships at the time and the distorting effect on the market of chartering so much tonnage at short notice. The figure for consequential liabilities is an unquantifiable but additional cost: as



is the cost of refit for each vessel following the operation. Cheaper charter rates might be obtained by negotiating for the ships at longer notice, when the risk of consequential costs would also reduce: but companies are unlikely to have slots available in their ships' programmes at less than 6, and more typically 12, months ahead.

13. Annex C sets out potential capacities and estimated basic transport costs for shipborne movement to Taiwan, the Philippines and Northern Australia. The most economic use of ships would be on the shortest runs, eg to Taiwan; 71 ships could transport 2.6 million people in one month at a basic transport cost of £163.85 per head excluding all consequential extra costs. Longer distance travel has progressively lower capacity and higher costs.

14. The main constraints on air evacuation are:

- a. terminal capacity;
- b. capacity to accommodate aircraft on the ground;
- c. availability of aircraft.

15. The terminal capacity of Kai Tak airport is 18m a year or say 75,000 in 24 hours. At present it processes 40,000 per 16 hour day. However, terminals like any other part of an airport need maintenance, and 75,000 a day must be an absolute maximum.

16. The machines on ground capacity (in terms of B747 aircraft) for Kai Tak is 40. This level of intense activity could cause problems.

17. To move 75,000 people a day the aircraft requirements would depend on the distance that aircraft would have to fly, as follows:

400 miles

6<sup>1</sup>/<sub>2</sub> hour round trip with 2 hours turn-round at each end. 50 aircraft needed (with 42 on the ground at any one time).



1200 miles

10 hour round trip with 2 hours turn-round at each end. 70 aircraft (with 32 on the ground at any one time).

4000 miles

23 hour round trip with 2 hours turn-round at each end. 191 aircraft (with 28 on the ground at any one time).

None of these figures allow for maintenance or standby time.

18. The figures assume we use B747s; this is both because Kai Tak is adapted to them and because they can shift the largest number of people - 350/450 depending on the seating configuration. The United Kingdom's long-haul fleet numbers 72 aircraft and only 35 of those are passenger B747s. Hong Kong have 30 B747s; Japan 75 B747s, 21 DC120 and 11 Tristars. In the region as a whole there could be as many as 250 equivalents.

19. To provide the necessary aircraft, it would be necessary to wet-lease them (ie leased with crew, fuel etc) and to divert them from their normal operations. The number of aircraft available for leasing is limited and varies at different times of the year. Leasing in a sellers' market would be an expensive activity. Paying to divert aircraft from scheduled or committee charter flights would clearly be more costly still.

20. If an exercise of this sort were seriously contemplated, and if air transport were intended to make a major contribution, a careful planning effort would need to be deployed: destinations and numbers to destinations would be worked out. The United Kingdom and others' contribution to the provision of aircraft would need to be settled, aircraft would have to be earmarked; account would need to be taken of adverse contingencies; and so on.



## MILITARY EVACUATION

21. Military assistance is likely to be a significant feature of an evacuation plan in the period up to July 1997 but not beyond. In quantitative terms the capacity of the services to transport large numbers of personnel is small compared both with the overall size of the problem and with the capacity of assets drawn from the civil sector. In addition the availability of military units will be affected by other commitments at the time, and the relative priority the Government gives to an evacuation operation compared with those commitments. Accordingly, although some military assets could be provided, they would form no more than an element of a much larger, and probably international, civil-led operation.

### Air and Sea Transport

22. The RAF's air transport force comprises the following:

a. Six wide-bodied Tristar aircraft. At any one time, four of these are configured for air to air re-fuelling - though they could be converted to passenger use if need be - leaving two available for 265 passengers each; a total of 530.

b. Thirteen VC10 aircraft each with a capacity of 129, of which 9 are assumed to be available at any one time, giving a capacity of 1161.

c. Sixty C130 Hercules each of which could carry 70-100 passengers with no baggage, of which 43 are assumed to be available at any one time, giving a capacity of about 3500.

23. The readily available maximum single lift capacity is therefore likely to be in the region of 5000. In practice the actual capacity could be significantly reduced by other commitments (including other military tasks associated with any evacuation of Hong Kong). The total numbers that could be carried would depend on the destination chosen and the time available.



24. Assuming deployment from the UK, the first aircraft could be in Hong Kong about 36 hours after the go-ahead was given, with the remainder in theatre within 6 days. Evacuation times would obviously depend on destination: the nearest sensible evacuation airhead would be the Philippines (some 2.5 hours flying time from Hong Kong). However the pace of deployment and evacuation would be significantly affected by the capacity of sending and receiving airports to handle large numbers of aircraft (civil and military) and personnel.

25. For sea transport, there is not a great deal that the Royal Navy could offer within a short timescale. The use of the majority of warships can effectively be discounted. But the assault ship Fearless or Intrepid could accommodate up to 500 passengers, though in relatively spartan conditions. (Only one of these vessels is operational at any one time). Similarly, if one of the Navy's aircraft carriers were available it could carry up to 1200 passengers. In addition the Royal Fleet Auxiliary operate five Landing Ships Logistic (LSLs) which could accommodate up to 500 passengers each. At any one time, four of these are fully operational. Deployment times would be much longer than by air unless, fortuitously, one or more of these vessels was in the vicinity. In the worst case, sailing time from UK waters, the most likely location of both the assault ship and the LSLs, would be 30 days for the assault ship and the carrier, and 35 days for the LSLs.

#### Other Military Assistance

26. The Hong Kong garrison (currently about 7000 strong but due to decline to about 1997) is available to demonstrate United Kingdom sovereignty over Hong Kong and to assist the civil power in maintaining security in the Colony, should there be a breakdown in law and order at the time of any evacuation. It would be particularly important in such circumstances to maintain security around the airport and harbour, as the departure points for refugees. Contingency plans exist to reinforce the garrison by up to a further 2000 troops should this be necessary; and to provide a further 1500 to replace civilian labour in support of the garrison, should that become unreliable or



unavailable. The deployment of such numbers would take up the majority if not all of the air military transport assets referred to in paragraphs 3 and 4. Though they would be available for evacuation within the region once in Hong Kong, it might also be necessary to use them to extract all or part of the garrison at some point.

27. In addition, and in very extreme circumstances, the garrison and other United Kingdom forces deployed to the area could help to deter and counter any direct military threat from the Chinese, should that arise as part of the circumstances surrounding a requirement to assist in evacuation. In this connection, if the Chinese wished to stop or slow down a mass exodus from Hong Kong and were prepared to take military action to that end, it would be relatively easy for them to deploy air and sea units in such a way as to make arrival or departure of aircraft and ships extremely hazardous - a course of action that they might feel more disposed to take if there were a significant military component in the evacuation operation itself. On the other hand, it would be important to demonstrate to the Chinese government that internal security is being maintained within the Colony, so as to remove that as a pretext for military action by them. These are factors that would need to be taken into account in assessing where the weight of effort in military support to an evacuation should be applied.

28. Other, more specialist assistance could include:

- a. engineer units to help in the construction of temporary shelters;
- b. mobile medical units to supplement the civil medical effort, and specialist medical team (eg a burns unit);
- c. air-traffic control and air movements personnel; and
- d. communications support.



Council, the Paris Economic Summit and bilaterally with their American, Australian and Canadian counterparts. It will however be a much more difficult - if not impossible - task to extract firm commitments from these governments in the absence of an evident crisis and 8 years before the transfer of sovereignty. It will be all the harder to do so as long as the British Government are unable to be specific about what they would do. Other countries would certainly look to us to give a lead.

49. There is nevertheless an expectation in this country and in Hong Kong that we should undertake urgent and detailed considerations with other governments. A possible plan of action, in addition to what has already been done, is as follows:

DATE	EVENT	ACTION PROPOSED
SEPTEMBER	UNGA	Passage on Hong Kong in Secretary of State's speech. Bilaterals with United States, Canada and Australians.
OCTOBER	CHOGM	Inscription of Hong Kong as agenda item. Passage on Hong Kong in Prime Minister's speech. Bilaterals with Canadian, Australian, New Zealand Singapore Governments.
8-9 DECEMBER	EUROPEAN COUNCIL	Inscription of Hong Kong as agenda item. Passage on Hong Kong in Prime Minister's speech. Bilaterals with Canadian, Australian, New Zealand and Singapore Governments.



ANNEX A

## WORLD CRUISE FLEET

NATIONALITY	NUMBER OF VESSELS	TOTAL NUMBER OF PASSENGER BERTHS
Italy	6	5618
Yugoslavia	4	1154
Greece	20	10269
Russia	12	6491
United States	7	3210
East Germany	1	638
Panama	22	17328
Japan	5	2424
Norway	7	6744
Bermuda	1	1200
Poland	1	648
Liberia	11	13452
West Germany	2	1228
Finland	1	1223
Philippines	1	480
Ecuador	3	354
Great Britain	8	8394
Antigua	3	3400
Bahamas	26	19001
Hong Kong	1	480
Cyprus	1	346
TOTAL	143	104,082



## FORECAST OF CRUISE SHIP BERTHS POTENTIAL AVAILABLE

ZONE	MONTH												WEEKS FROM HONG KONG
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	
Far East	5000 (9)	5000 (9)	7000 (12)	6000 (11)	4500 (8)	3500 (7)	4000 (7)	4000 (8)	5200 (10)	5900 (10)	6000 (11)	4000 (9)	1
Pacific	6500 (11)	8500 (14)	6500 (11)	5000 (10)	5000 (10)	4000 (7)	4000 (8)	5400 (8)	4000 (7)	5200 (9)	7000 (11)	6000 (10)	1 To 2
Alaska	-	-	-	2000 (1)	6000 (8)	16000 (20)	16000 (20)	15000 (18)	12500 (14)	1200 (1)	-	-	2
Caribbean	50000 (58)	490000 (55)	460000 (54)	44000 (46)	32000 (32)	30000 (29)	30000 (29)	31200 (30)	31700 (31)	37500 (37)	3000 (44)	45000 (49)	3
Mexican Riviera	8000 (10)	6000 (8)	8000 (10)	7000 (9)	9500 (11)	4000 (5)	4500 (5)	450 (5)	5800 (5)	8300 (9)	8000 (9)	8000 (9)	3
Rest of World	18000 (27)	19500 (31)	23500 (37)	31500 (55)	36500 (65)	44500 (72)	43500 (73)	41500 (71)	42500 (72)	37500 (66)	20000 (36)	18000 (28)	4
TOTAL	87500 (115)	88000 (117)	91000 (124)	95000 (132)	94000 (134)	102000 (140)	102000 (142)	101600 (140)	101700 (139)	95600 (132)	4000 (111)	81000 (105)	

Note: The figures in parenthesis are the number of vessels scheduled in the particular zone that provides the lift.



## CRUISE SHIPS LIFT CAPACITY AND COSTS

Assumptions:

- a. Use of 50 per cent of the 143 suitable ships in the world fleet;
- b. lift capacity as at 4 weeks after notification (ie maximum, ships have arrived from furthest cruising grounds);
- c. costs are based on daily rate + fuel + stores = £200,000 per ship per day: all consequential claims liabilities, cost of subsequent refit, etc are additional;
- d. costs cover only sea transport from Hong Kong to first destination.

## PEAK LIFT CAPACITY PER MONTH

## A. HONG KONG - TAIWAN

Round trip every 3 days, ships operate at 5 x normal pax load.

71 ships = 52000 berths x 5 x 10 trips/month = 2,600,000 pax moved  
 Total costs per month: 71 ships x £200,000 x 30 = £426,000,000  
 Costs per passenger : 426/2.6 = £163.85 per head

## B. HONG KONG - SUBIC BAY

Round trip every 4 days, ships operate at 3 x normal pax load

71 ships = 52000 berths x 3 x 7.5 trips/month = 1,170,000 pax moved  
 Total costs per month: = £426,000,000  
 Costs per passenger : 426/1.17 = £364.10 per head

## C. HONG KONG - DARWIN

Round trip every 14 days, ships operate at 1.5 x normal pax load

71 ships = 52000 berths x 1.5 x 2.1 trips/month = 163,800 pax moved  
 Total costs per month: = £426,000,000  
 Costs per passenger : 426/0.1638 = £2600.73 per head



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11 August 1989

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CONTINGENCY PLANNING FOR HONG KONG

I enclose a contribution to the MISC 140 report on lines commissioned at the meeting on 2 August.

✓ We have tried to cast our contribution in the green/amber/red mode laid down by the Chairman. In doing so it has seemed preferable to provide a new self-contained contribution, drawing on - and digesting - the material we provided for the paper taken at the last meeting. (You may feel that our earlier contribution could usefully form an appendix to the final paper.)

We are grateful to Liz Walton in DOE for providing us with material. We should add the authorial disclaimer that she is not responsible for the use we have made of her material and should feel free to correct any distortion we have introduced in summarising the accommodation position.

We have liaised with Nigel Varney in our Immigration Department. His contribution covers the immigration admission issues which have to be addressed before reception and resettlement arrangements arise.

We have included a paragraph indicating the action which might be commissioned in the green phase. It is worth noting that this could amount to a formidable task. We hope that the final paper will not encourage elaborate contingency planning work without recognition of the burdens that this will place on Departments.

I am now going on holiday. In my absence Bronwen Fair, Head of the Voluntary Services Unit in the Home Office, will be available for issues which arise on reception and resettlement arrangements.

I am sending copies of this letter to Nigel Varney, IND, and Liz Walton, DOE.

*Yours sincerely  
Richard Fries*

R J FRIES

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CONTRIBUTION TO CABINET OFFICE PAPER

CONTINGENCY PLANNING FOR HONG KONG: RECEPTION AND RESETTLEMENT

There are two stages for dealing with those admitted to the United Kingdom from Hong Kong:

- (1) reception arrangements;
- (2) resettlement arrangements.

Reception

2. Coordinated reception arrangements will be necessary under virtually all scenarios. Arrangements for initial accommodation and feeding will be necessary for the majority on the assumption that few will have contacts here to whom they can immediately turn. Past exercises have relied heavily on the use of MOD property. With the reduction in the amount of such property, private sector sites will need to be sought for any significant influx. Past experience, notably with East African Asians from Uganda in 1972/3 and previous contingency planning have been based on establishing a Government body to coordinate reception and resettlement arrangements. Planning for the reception of an influx from Hong Kong might be based on the analogy of the Uganda Resettlement Board. The reception period could last up to six months before people can be moved to more permanent places of residence. During that period medical attention and, for children, schooling would need to be available at the reception locations.

Resettlement

3. Arrangements for resettling people from Hong Kong will depend on a number of factors, in particular:

- (a) the scale and timespan of an influx;

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(b) the extent of links which the people coming have with the United Kingdom;

(c) the resources, abilities and skills which they bring with them.

Special arrangements are likely to be needed for housing and income support; for training (including language training) and advice and support for business and employment. Account will also need to be taken of the impact on health, education and other services.

*In the event of a large scale exodus,*  
4. Accommodation is likely to be <sup>a severe</sup> [an absolute] problem [for a significant influx]. Only some 400,000 properties would be available in the short term (~~X~~ 300,000 of <sup>which</sup> [these] would have to be requisitioned from the private sector). Even for a smaller *scale* influx, for which housing provision is in principle available, there is likely to be a <sup>mismatch between the areas where there is</sup> [problem over the choice of areas] where accommodation [is available] and those where employment prospects and community contacts are greater but accommodation and other services are under pressure. Planning will have to address issues of the extent to which arrivals can be encouraged (and support may depend upon) residence in particular areas. (There are no generally available registers of where empty dwellings are located.)

#### Action in planning period

5. Against <sup>this</sup> [the] background [of the above analysis] the following steps <sup>might</sup> be taken during the <sup>green phase</sup> [planning period]:

(1) develop criteria for the handling of arrivals in various categories in relation to the range of scenarios identified;

(2) prepare detailed paper plans for establishing a reception board;

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- (3) identify the range of reception accommodation which might be available and earmark suitable sites;
- (4) identify sources for other services needed in reception phase;
- (5) make plans for requisitioning and, as necessary, construction of dwellings;
- (6) develop detailed policies for other aspects of the settlement of arrivals, coordinated among the Departments concerned - in particular HO, DOE, DE (including Training Agency), DES, Department of Health and DSS.

Given that the time between an influx becoming imminent and significant numbers of arrivals starting to be recieved may be short it will be important to take planning sufficiently far to enable arrangements to be set in place quickly during the pre-crisis phase. The extent to which practical arrangements can be set in hand at central Government level is, on past experience, limited. Decisions will be needed once initial work has been carried out about the stage at which planning can be taken outside central Government.

#### Imminent crisis

6. The steps which would be taken, in the light of plans worked up in the planning phase, would involve:

setting up the reception board;

requisitioning as necessary and preparing reception centres;

refining resettlement policies.

#### Resource implications

7. The first major resource needs, beyond staff costs in the planning stage, would begin with the establishment of a reception board. (The Uganda Resettlement Board cost £6 million (1973 prices) over a 16 month period.) This would

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quickly be followed by the setting up of reception centres. Previous experience suggests costs in the region of £5 million per 1,000 refugees for the reception stage. This figure assumes each refugee would stay in a reception centre for 6 months where basic needs were met and some fairly minimal English language support given. Settlement beyond the reception centre stage would make demands on all statutory services but the provision of adequate accommodation is the key resource issue to be addressed (see 5(6) above).

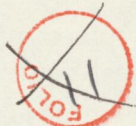
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MR APPLEYARD

✓ WAH/8



Mr Manning

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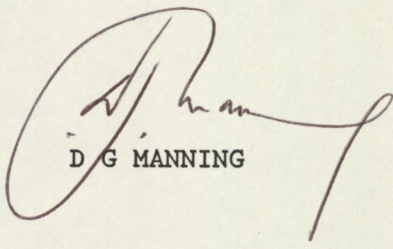
Nany Haines. You may be able to  
deploy a little of the data/arguments  
in the Mirc 140 paper. I find the  
conclusions hard to believe: especially the  
infrastructure costs.

HONG KONG: THE CORRY REPORT

WAH/8

You may recall that Mr Paul (FCO) mentioned the Corry Report at a recent meeting. He has now sent me a copy, which I attach together with an article that appeared in yesterday Financial Times by Sam Brittan entitled "How Hong Kong can help UK".

2. I think you will find both are worth a look. Corry offers "the best case" scenario as to the likely impact on the UK (particularly on the economy) of the arrival of over 3 million Hong Kong Chinese. However, as Corry himself acknowledges, his optimism needs to be tempered by the fact that his findings are based on the assumption that immigration from Hong Kong would be carefully managed on an annual basis between 1990 to 1998 (something that is most unlikely to happen). The findings also make no real attempt to address the social/race relations questions that would be prompted by massive Hong Kong Chinese immigration.

  
D G MANNING

11 August 1989

Att



## ECONOMIC VIEWPOINT

Economic analysis cannot tell us whether or not Britain should allow free entry to Hong Kong immigrants who wish to leave before the union of their country with China in 1997. Little words like obligation also come into any assessment. But economic analysis can put to rest some fears and superstitions and also suggest that new opportunities could be opened up for the British economy as well as Hong Kong immigrants.

If all British passport holders in Hong Kong were to come to the UK, the resulting immigrant inflow would be 3.2m. Any such total would be wildly improbable. For many Hong Kong citizens the pull of familiar surroundings and the Cantonese culture would be too great. In a poll conducted by Survey Research Hong Kong, 62 per cent said they would stay in Hong Kong even if the right of abode in the UK were granted, 6 per cent said they would emigrate to the UK, and 15 per cent that they would emigrate to other countries.

It is nevertheless worth asking what would be the implications of the so-called worst case – that is, if all 3.2m were to come to the UK. With a total UK population of 56.9m, the resulting population increase would be 5.6 per cent.

This is large, without being overwhelming. The number of people involved would be greater than all the existing ethnic minority groups, estimated at 2.4m, of whom over 40 per cent were British-born.

On the other hand the potential inflow is far smaller than that which would take place into the German Federal Republic, if either the citizens of East Germany or all "ethnic Germans" from further East were allowed to leave their homelands – a process that may now be beginning. Under fundamental Federal law both categories have the right to settle in West Germany; and many of the ethnic Germans have a far poorer command of German than the British-born.

Not surprisingly the opening night (July 27) had been, according to report, a traught occasion. By the third performance Soliti's characteristic crisp way with rhythmic delineation and determination to draw faint phrasing and textures from the Vienna Philharmonic were paying substantial dividends. He is not, and never has been, a "singing" Verdian, but he accompanied the cast with chivalry and high skill. His was not a grandiose reading, which is what the staging predicated. By the end of the evening one was in no mood to object.



## UK Population 1984-86

Ethnic group	% aged 60 or over	Total* (thousands)	% UK born
White	21	51,107	96
All ethnic minority groups	4	2,432	43
of which:			
West Indian or Guyanese	6	534	53
Indian subcontinent	4	1,260	37
Chinese	5	115	24
African	4	103	35
Not stated	17	691	68
All groups	20	54,230	93

\* Population in private households

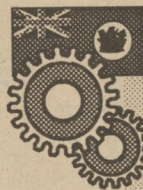
Source: Social Trends



## Comparative population densities

	Inhabitants per sq. km.		Inhabitants per sq. km.
Netherlands	432	Italy	190
Japan	328	France	102
Belgium	324	US	26
Germany	246	Australia	2
UK	232		

Source: OECD



## Hong Kong

Distribution of manufacturing employment 1988, %

Electrical	14
of which electronics	10
Textiles	14
of which knitwear	5
Clothing	29
Plastics	9
Other	33

Source: Corry report

# How Hong Kong can help UK

in sectors where the UK suffers from skill shortages. An important minority of the immigrants would be highly skilled or of professional status.

There are other pluses, such as the low dependency ratio. The median age of the Hong Kong population is between 25 and 29 compared with nearly 40 in the UK. The proportion of people over 65 is half as high.

The most important question turns out to be whether the existing distribution of British population of Chinese extraction is followed by the new immigrants – in which case nearly a half of them would go to the south east – or whether, at the other extreme, they can be induced to settle in the major cities and industrial areas of the north where the population is otherwise expected to decline and where land is available and relatively cheap. Although the initial allocation of entry permits could depend on the willingness to settle north of Watford, surely the immigrants themselves could then be expected to appreciate the cost-of-living advantages of the northern parts of the country without further pressure.

The Corry Report expects the UK balance of payments to benefit from the transfer to the UK of Hong Kong's predominantly export industries such as textiles, clothing and electrical goods where labour is relatively cheap and demand is sensitive to price. But an offset would occur if the immigrants settled in the south east and were housed at public expense. Both aspects could produce inflationary overheating unless counteracted by corrective policies. With a successful regional steer there could, on the other hand, be real regeneration of declining areas.

The main adverse consequences would be more competition for unskilled jobs and general pressure on those in a marginal position in the UK housing market in the private rented sector, including, in Corry's words, "the unskilled,

Le style c'est l'homme –  
 The artistic nullity of the Karajan era.  
 manner. It seems to sum up and awesome vagrancy of design super-splashes of scale, monster-largeness of scale, on this difficult topic: for in its erably in concentrating minds maschera, should help consider year's festival, *Un ballo in maschera*, new production of this big new production of the future has hardly begun. The to sustain in the post-Karajan port of festival the city hopes But discussion about what frequently).  
 era boss and producer, crops arding, the former Munich used about (that of August supreme are already being access to the post or test-  
 While the main characters struggle to achieve the foreground there is an almighty ballet (not much sign of an actual ball here), not to mention the monstrous regiments of chorus and supernumeraries in Luciano Arrighi's glitz-laden costumes. One begins to feel that the climactic confluence of the opera's dark and light themes, its tragic romanticism and sparkling theatricality, has become a sideshow to the main Salzburg business of stunning the high-price-paying customers with value-for-money spectacles. It is, altogether, the show-off of Ballo.



## ARTS

# Crusoe vs the flying mouse

MAN (12)  
as West End, selected  
locals

SOE (15)  
ottenham Ct Rd

NE OF WESTERN  
ON PART II: THE  
YEARS (15)  
ICA

l, as he kits himself out  
ny: at which Old Nick  
mirror with a look of  
turn disdain - "I didn't

has an audience eating  
like this, he makes the  
em a feast. Nicholson -  
handicap to prove his  
per the bandaged nose  
even has to act through  
surgery. The Joker's  
of primitive face-work  
lip in a vat of boiling  
e dip? Why, the flying  
asuing revenge plot.

ouse himself doffs his  
complete with rippling  
to become millionaire  
actor Michael Keaton.  
hole movie breathing-  
g. A pocket-size play-  
by his own Xanadu  
me's Gothic giantism  
n here as elsewhere.)  
ildly skittering style  
to bend towards the  
rather than (as with  
ck and be bombarded.  
"but" starts here -

e. The plot is a lot of  
t big-city crime syndi-  
vshounds and corrupt  
s real-life Mayor Koch  
spitting-image imper-  
llace). And the female  
ly embodied in Kim  
ournalist Vicki Vale,"  
n a human frisbee

whizzed to and fro between rival suitors  
Joker and Batman.

Worst of all, audience exhaustion begins  
to set in just when the grand finale starts:  
a 200th birthday party for the city held in  
Gotham's streets. This is hosted by the  
Joker and rejoices in an unscheduled duel  
between the capering villain on his carn-  
ival float and a skyborne Batman blazing  
away from his Bat-plane. But by this point  
you have eaten so much action-rich, col-  
our-enhanced, Dolby-stereo'd Bat-cake that  
the thought of another piece - even a  
piece de resistance - has you reaching for  
the brown paper bag.

The problem - and it has been Holly-  
wood's throughout the summer - is that  
we're seeing technical and imaginative  
brilliance married to stories whose mental  
age is approximately three. The visual  
brainwaves of director Tim Burton (of *Bee-  
tlejuice*) are often wonderful: a shot of Bat-  
man silhouetted against the moon like a  
human logo; a midnight drive in the Bat-  
mobile through beech woods eerie and  
phosphoric with menace; an opening title  
sequence with the camera gliding round  
dark and grizzled crags whose meaning is  
slowly, teasingly revealed. But what price  
such virtuosity if all we find at the bottom  
of the Pandora's Box is a dog-eared collec-  
tion of old comic books?

The glimpses *Batman* the movie gives  
us of a surreal heightening (Nicholson) or  
a sombre humanising (Keaton) of *Batman*  
the comic-strip are enough to tantalise,  
never enough to satisfy. We leave thrilled,  
entertained, excited - but glugged only on  
nothingness: our stomachs filled not with  
substance but with emptiness disguised in  
its likeness. *Batman* is the masterpiece of  
an movie age in which the gift-wrapping is  
all the gift you get. Don't unwrap it too  
hurriedly, or there will be tears before  
bedtime.

*Crusoe* takes another Western folk hero  
and runs him up the Hollywood flagpole.  
Daniel Defoe's 17th century castaway is  
here translated into a shipwrecked Ameri-  
can slave-trader of the same name. He is  
washed up, circa 1810, on a desert shore  
somewhere in the famous Travel Brochure  
Isles. (White beach, blue sea, swaying

coconut palms, only-man-is-vile.)

Washed up, alas, in all senses. Aidan  
Quinn's Crusoe grows a beard, talks to his  
dog, eats lizards, befriends a passing can-  
nibal (Ade Sapara) and generally displays  
an inability to pass the time interestingly.  
Finally he is rescued by a ship, allowing  
him to deliver the film's pint-sized anti-col-  
onial pay-off: he frees "Friday" who has  
been seized and bound by the ship's  
greedy white anthropologists. Caleb (*The  
Black Stallion*) Deschanel directs: the  
pretty photography is by Tom Pinter.

Unlike Mr Crusoe, if you were cast away  
on a desert island today you would have  
the chance to take your ten favourite  
records. Would they include any by  
Megadeth, Odin, Aerosmith or Faster Pus-  
sycat?

All are "heavy metal" groups, whose  
members are celebrated and interviewed  
in *The Decline Of Western Civilisation Part  
II: The Metal Years*. This rockumentary by  
fringe film-maker Penelope Spheeris (of  
*Suburbia*, *Dudes* and *Decline Part I*, a  
study of punk) crackles along like a fire-  
work, spitting words of wisdom on music,  
sex, drugs, drink, ambition, fame, sex and  
drugs.

Telling us little we didn't know already  
or could not have guessed, the film scores  
zero for enlightenment but about 100 for  
entertainment. The epigrammatic range  
extends from Alice Cooper's definition of  
Heavy Metal as "just a fist in your face" to  
someone else's put-down of rock world  
machismo: "Doesn't matter what size your  
pencil is, it's how you write your name."

Image-wise, the preponderance of long  
black hair and pallid faces suggests some  
bizarre Richard III lookalike contest. And  
in the closing minutes the fate of rock  
heroes is cruelly reduced by Spheeris to a  
choice between Chris Holmes guzzling bot-  
tlefuls of Smirnoff in his luxury swimming  
pool and Ozzy Osbourne cooking eggs and  
bacon in a spotless kitchen while burbling  
about Satan. In the rock world the Devil  
may have all the best songs, but he looks  
more than a bit silly when superannuation  
beckons.

Nigel Andrews Jack Nicholson a

## Un ballo in maschera

GROSSES FESTSPIELHAUS, SALZBURG

The 1989 Salzburg festival  
ushers in the post-Herbert von  
Karajan era. Black ribbon  
edges his photographs in all  
the shop-window displays; fes-  
tival programme booklets  
carry a supplement listing  
every one of his Salzburg per-  
formances; hardly a day goes  
by without some Karajan item  
in the local papers. Names of  
processors to the next of festi-

work is given in its original  
Stockholm setting, and its  
finale in Gustaf's own theatre.  
What William Dudley has  
designed, indeed, is an  
immense tri-sided Drottning-  
holm set that can be swung  
around to show both back and  
front stage and a segment of  
the auditorium.

It can be, and it is, thrice;

mance "saved," as far as possi-  
ble, by the native strengths of  
the cast, irreducible even in  
this essentially inartistic con-  
text, and by Georg Solti as  
conductor. (Karajan died on  
July 16, at an advanced stage  
of rehearsals; Solti, whose  
Salzburg connection dates  
back to the Toscanini period in  
the 1930s, nobly agreed to step  
in for the first three evenings.

Covent Garden Luisa Miller  
appearance that first brought  
him to international notice.  
Florence Quivar (Ulrica) lacks  
darkness of tone-colour but  
nothing in musical sensibility;  
the young Korean Sumi Jo  
(Oscar) is delightfully pure.

Placido Domingo's Gustaf is  
now a mature and masterly  
study, sung with endless  
resources of intelligence and





*With the compliments of*

HONG KONG DEPARTMENT

*From Alas Paul*

FOREIGN AND COMMONWEALTH OFFICE  
SW1A 2AH



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South China

# Sunday Morning Post

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## THE CORRY REPORT

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July 2, 1989

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# THE IMPACT OF MASS HONGKONG IMMIGRATION TO THE UK

An Economic Analysis  
by  
Professor Bernard Corry  
Dr John Bowers  
Dr Ciaran Driver  
Gavan Duffy  
Ursula Huws  
Dr Quentin Outram  
with  
Professor Ken Gwilliam

## FOREWORD

**THIS** report, which was commissioned by the *South China Sunday Morning Post*, was produced by the Hongkong/UK Economy Research Group, an ad hoc group of specialists convened especially for the purpose. Its members include:

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**THE** authors would like to emphasise that all contributions have been made in a personal capacity, and do not necessarily express the views of the institutions by whom they are employed.

A special section, on transport, was kindly contributed by Professor Ken Gwilliam, Professor of Transport Economics at the University of Rotterdam.

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## CHAPTER 1

### INTRODUCTION

THIS report is intended as a serious contribution to the debate about the future of the citizens of Hongkong. We seek here not simply to assert that vast numbers of people from Hongkong should, or should not, be allowed to be residents of the United Kingdom, but rather to carry out a careful assessment of the likely benefits and costs of the consequences of a large population movement.

We strongly believe that such an approach is urgently required as a major input into the current debate – a debate that will clearly grow in intensity over the next few months. The tradition of emotional prejudice about immigration has a long history in Britain, and the pressure to exclaim a simple “yes” or “no” is strong.

Our purpose is not to add to these imperatives: rather it is to inform public opinion about the likely consequences of allowing large numbers of Hongkong residents to enter the United Kingdom.

Throughout our study we have assumed what is regarded by large sections of the British public and press as a “worst case” scenario – that most or all of the British passport-holders in Hongkong actually want to settle in the UK, and would do so if given the opportunity.

In fact there is scant evidence for this position. A recent opinion poll on the subject, conducted by Survey Research Hongkong Ltd for Radio Television Hongkong, the *South China Morning Post* and *Ming Pao*, found that few were interested in emigrating to Britain. When asked what action they would take if the right of abode in the UK was granted, 62 per cent stated that they would stay in Hongkong, 15 per cent that they would migrate to other countries, and only six per cent that they would migrate to the UK.

Nevertheless, we feel that, if a theoretical possibility exists that 3.2 million people might migrate to the UK from Hongkong, then it is important to look at the consequences of this extreme case, so that the policy options can be assessed rationally.

Our report is fairly technical; it uses a good deal of statistical information and uses this information to make certain predictions about the consequences of alternative lines of action. This quantitative approach is a reasonable one, but naturally certain caveats have to be clearly stated as a preface to the technical analysis which follows in the proceeding chapters.

The quantitative approach needs little defence, *per se*. It is one thing to suggest qualitative directions of the effect of mass immigration on the UK economy, increases in the supply of unskilled, semi-skilled and skilled labour, increased demand for housing, education and other social services, stimulus to certain types of exports etc, but quite another to get beyond these generalities it is imperative to put numbers, however provisional and subject to error, onto the main categories of effects. It is simply impossible, from qualitative analysis alone, to make any judgement at all about the rough balance of benefits and costs to the operation.

Any statistical approach to socio-economic questions raises a host of methodological issues. In this particular study these are highlighted. To begin with there is the adequacy and reliability of the statistics used.

We have used what available sources there are, and figures that are as up-to-date as possible. In certain, quite crucial, areas we have found no estimates. For example, we do not know the degree of fluency in English (spoken or written) among the Hongkong residents. Nor, to take another example, do we have reliable estimates of the wealth-holdings of residents. We hope that one important by-product of this research will be the stimulus it gives to other interested parties to increase the flow of data in the areas we have identified.

We now turn to what is the most common criticism of studies like this one. It is the question of the assumptions made. Are they just pulled out of a hat, or made for mere convenience, or to underpin political prejudice?

Assumptions are of different kinds and forms. There are assumptions about individual behaviour and reaction to the turn of events, whatever the eventual numbers permitted into the UK. How many of these will actually take up the offer? Will they intend to be permanent or transitory residents?

What percentage of their wealth holdings will they bring to the UK, and what percentage will they lodge in other countries? How will financial and exchange markets react to the possible outcomes, and will forward-looking expectations dominate markets, or will a wait-and-see attitude prevail?

These are important questions, but ones about which it is impossible to form sensible working hypotheses without much more accurate data. This is why, as already noted, we have chosen to adopt a “worst case” approach for the purposes of this study.

Assumptions have to be made about the policy stance of government. There may be a change of government in the UK in a few years' time. Even without this, policy changes are not inconceivable. Will



the government leave the housing problem created by large scale immigration entirely to the market, or will it fund public provision, at least in part? Will it attempt to control the regional distribution of the new residents or will there be a free-for-all?

In the full picture, account will also have to be taken of possible policy reactions by other countries. What will the line on immigration from Hong Kong be, for example, in Australia, Canada, the USA or the European Community? Might they adopt a so-called "creaming" policy of only admitting highly trained and skilled migrants?

Our estimates of possible macro-economic effects, the effects on such variables as the inflation rate, the balance of payment, the growth in output and employment, and the government financial balance, are based on simulations from a macro-economic model.

We naturally gave a good deal of thought to the question of which model to employ in the study. Those readers familiar with this branch of economics will be only too aware that macro-modelling is a perilous activity. Its record in accurate forecasting is, to say the least, uneven. Should one use a supply-driven, market clearing, rational expectations format, or, at the other extreme, a demand-driven, non-monetarist, Keynesian-type model?

How have we tried to deal with these problems in relation to assumptions in our study? First of all, we have made it absolutely clear which assumptions are being used in the various sections of the study. Secondly, we have explored the most plausible of the very wide range of alternative assumptions. At this early stage of analysis, these are, of necessity, often tentative. As more information is collected, the framework we have developed will allow firmer conclusions to be drawn.

Our preliminary analysis of the issues raised by the influx of large numbers of immigrants from Hongkong led us to a realisation of the overriding importance of a large expansion in demand. We therefore selected a modified Keynesian model which incorporated monetarist elements for our study.

Finally, what about those factors which are, by their very nature unmeasurable? Will the greater ethnic mix lead to a socially enriched community, or will it simply fire racial tension and social discord? Will there be a law and order problem? For many people it may well be these considerations which dominate their attitude towards the problem rather than calculations of economic costs and benefits. In this work we have not attempted to address these sorts of issues, but we do recognise their importance.

The sequence of our report is as follows;

In Chapter 2 we set the scene by giving a brief historical account of the process by which Hongkong achieved its present population. In Chapter 3 we examine its current demographic structure, compare this with the UK demographics, and on alternative assumptions, look at possible regional distributions of the new immigrants in the UK.

The implications for housing in the UK are the subject of Chapter 4. This analyses housing conditions in Hongkong, the implications of a transfer of residency for UK housing demand and how the extra housing demand might be met under different mixes of private and public provision.

The effects of the population transfer on public spending in the UK are the focus of Chapter 5, which investigates the possible consequences for expenditure on education, health and social services. Chapter 5 also examines the impact on transport infrastructure and services in the UK.

Chapters 6, 7 and 8 are a particularly important section of the study. They deal with the labour market implications. Chapter 6 describes the structure and characteristics of the Hongkong labour force, while Chapter 7 looks at the UK labour market. How these might be integrated is the subject of Chapter 8.

The remaining chapters attempt to tease out some general conclusions. First, in Chapter 9, we quantify the impact on the economy as a whole of various different immigration scenarios.

Our conclusions may come as a surprise to those who assume that this influx will inevitably lead to a massive drain on the public purse, and lead to widespread disruption. It appears from our study that, even taking the extreme case of a total stock of 3.2 million immigrants, the economic costs are not dramatic. They certainly are of the order of magnitude that puts even the "worst case" scenario into the category of feasible.

It has to be said that the result of our calculations came as a surprise to most of the members of the team writing this report. Typically they had expected the outcome to be far more costly than these figures show. If we accept that this "worst case" is highly unlikely to come about, then the costs would be even less.

Whatever the exact cost in the short term, it is obvious from our research that the key to successful integration in the longer term will be the working of the labour market. It is in this market that the immigrants will become part of the economic fabric of the UK economy.

In its turn the expansion of the labour market depends firstly on the boost to the construction industry through the demand for housing, and secondly on an appropriate regional spread of the new labour force



and in particular the advantages of location in areas of population decline and relatively weak economic performance rather than in the currently booming areas or regions. In this scene the policy stance of government is a vital part of the analysis.

Finally, we should like to reiterate that this is not a study in persuasion; we have not set ourselves the task of deciding whether or not Hongkong residents should become United Kingdom residents. We have tried to answer the question, what are likely to be the major resource and financial costs and benefits of such a transfer of population.

**BERNARD CORRY**

**Queen Mary College, University of London, June 1989.**



## CHAPTER 2

### BACKGROUND

THERE are a number of issues which need to be clarified in order to understand the impact of large numbers of Hongkong residents coming to live in Britain. These relate to both countries and include the historical reasons for the growth of Hongkong, and the current economic background of the UK economy.

Hongkong has a population based on successive waves of refugees fleeing unrest in mainland China. In the early part of the century very few people lived in Hongkong, but periods of upheaval surrounding the warlord period, the rise of the rivalry between the Kuomintang and the communists, the invasion and war with Japan, the communist takeover of 1949 and later periods of restructuring all led to mass immigration from mainland China. From this foundation, the people of Hongkong have built a unique economy. It is not such a poor economy as many people in Britain believe. Table 2.1 shows figures comparing production per head for a number of economies calculated on methods used by the United Nations and the World Bank.

Ignoring the absolute values of these, the rankings clearly show the importance and relative prosperity of Hongkong.

**TABLE 2.1**  
Gross production per capita 1985

	ICP method	ATLAS method
UK	72.3	51.2
Hongkong	70.9	37.9
Israel	52.2	26.6
Spain	55.1	30.0
Ireland	46.8	29.5
Greece	42.0	21.6

Methods: United Nations International Comparison Project method and World Bank method. Source: World Development Report 1987, p270.

This information belies the preconceptions commonly held in the United Kingdom that the Hongkong workforce can be simply and unproblematically defined as 'cheap labour', an image which is, to some extent, reinforced by the role played in the UK economy by existing immigrants from Hongkong. In fact, these Hongkong-born British residents, concentrated as they are overwhelmingly in the catering industry, are not typical of the Hongkong populations as a whole, which is spread across a variety of occupations and industries across a diverse and vibrant economy.

Their untypicality is not confined to their employment conditions. The House of Commons Home Affairs Committee found, after an investigation conducted in 1984-85, that the existing UK-resident Chinese community was not representative in socio-economic terms of Hongkong society, and that the problems experienced by that community of language difficulties and cultural isolation were, to a large extent, untypical.

The background UK economy is in a paradoxical position. It possesses great financial strength but has excess supplies of labour. Whether this is a result of poor policies or of wider economic (and in particular international economic) forces is a point of controversy. It remains true, however, that the UK now possesses substantial foreign net assets for the first time since the war. This, together with changes in international financial arrangements, may mean that it is less tied to foreign exchange crisis management than it used to be. At the same time, the size of the national debt relative to national income is at a very low level and the government has been repaying substantial amounts of debt.

This picture is complemented by one of sharp structural change and decline of manufacturing industries, precisely in the face of competition from countries like Hongkong. Regional disparities in wealth and employment prospects are evident. However, apart from the core of long-term unemployed, the unemployment total hides the reality that there are very large turnovers in employment, with many people temporarily passing through the unemployed register. In these circumstances, unemployment is a better measure of lost output and opportunities than it is of social misery as in the 1930s. Britain, therefore, is a country with substantial room for manoeuvre in financial and economic matters.

The implication of this situation is that financial constraints are unlikely to be a binding barrier to allowing more immigration.



## CHAPTER 3

### DEMOGRAPHIC FACTORS

THE age structures of the Hongkong and UK populations are compared in Table 3.1.

The Hongkong population is on average considerably younger than that of the UK, with the median age lying in the 25-29 years band, in contrast to a UK median of almost 40 years. The age structure is therefore heavily skewed towards the younger age-groups, a factor which is emphasised still further in the immigrant cohort by the fact that British passport holders are likely to be younger on average than the population as a whole.

In a survey carried out in 1989 by Survey Research Hongkong Ltd, on behalf of *Radio Television Hongkong*, in a random sample of 1,035 Hongkong residents aged between 15 and 64, it was discovered that British Passport holders made up 82 per cent of 15 to 29-year-olds, 64 per cent of 30 to 44-year-olds, but only 25 per cent of 45-64 year olds.

Despite the fact that British passport holders appear to be substantially under-represented in the older age groups, we have made conservative 'worst-case' assumptions in our study, and based our estimates on the premise that the immigrant population is broadly representative of the Hongkong resident population as a whole.

**TABLE 3.1**  
Population age structure 1986

Age	%	Hongkong		UK	
		Cumulative	%	Cumulative	
0-4	8.1	8.1	6.4	6.4	
4-14	15.9	24.0	13.5	19.9	
15-19	9.6	33.6	8.4	28.3	
20-29	21.9	55.5	14.9	43.2	
30-39	14.6	70.1	14.0	57.2	
40-49	9.6	79.7	11.3	68.5	
50-59	9.5	89.2	11.1	79.5	
60-64	3.6	92.8	5.6	85.2	
65+	7.2	100.0	14.9	100.0	

The Hongkong birth rate has fallen over the last 20 years and is not significantly different from the current UK rate. The consequence of this difference in age structure is that the crude dependency ratio on UK definitions – the ratio of the population below working age and above retirement age to the population of working age – is substantially lower for the Hongkong population than it is for the UK.

Furthermore the structure of the dependent population is substantially different: there are 3.3 children for every person above retirement age in Hongkong, but only 1.3 in the UK.

Thus a typical cohort of the Hongkong population in contrast with the UK will represent a different pattern of demand on public services – higher demands on education services but lower demands on health and welfare services for the elderly, but in total would supply a larger labour force to produce the resources to meet those demands.

In the absence of authoritative direct evidence on UK passport holders, it is assumed that they represent a cross-section of the Hongkong population. While residence in the UK may be expected in the longer term to result in a population whose life expectancy is much the same as the rest of the population, it is assumed that in the short term Hongkong birth and death rates prevail. The demographic projection of immigrants in Table 3.2 is based on the 1987 Hongkong birth rate and the forecast age specific death rates for 1991.

For the purposes of this projection and the calculation of public expenditure forecasts consequent on it, a pattern of entry is assumed as in Table 3.3. For the first three years, only immigrants of working age enter the UK, with the dependents entering from 1993. This assumption can be defended as reflecting, albeit in extreme form, a pattern of behaviour observed in past immigration to the UK, most recently from the Commonwealth. But it also allows time for the capital investment necessary – in education, health and housing – to cope with the dependent population.

We therefore assume that the immigration is controlled to this pattern of entry. Our judgement is that it approximates to the least cost pattern of entry, given the constraint that all entry occurs over the



period 1990-96. We therefore term this assumption the controlled entry option. Under it the population of working age enters at a constant rate over the seven year period, this rate not varying by age or marital condition. The dependent population enters in four equal parts from 1993.

TABLE 3.2

Population forecast of Hongkong immigrants – controlled entry  
All figures in thousands apart from the total

Age	1990	91	92	93	94	95	96	97	98
0-4	-	3	12	88	159	227	292	241	234
5-9	-	-	-	60	124	182	240	243	242
10-14	-	-	-	65	130	194	258	254	252
15-19	-	-	-	67	135	201	268	265	263
20-24	48	86	117	142	175	215	260	261	262
25-29	51	102	150	195	236	275	314	303	295
30-34	42	86	132	178	224	269	312	313	311
35-39	34	71	108	148	188	230	272	280	286
40-44	20	44	70	98	129	161	195	211	224
45-49	21	43	65	88	112	137	163	169	177
50-54	23	45	68	90	112	135	157	161	162
55-59	-	4	13	60	103	141	176	171	168
60-64	-	-	-	34	70	108	144	149	152
65+	-	-	-	61	128	200	279	302	325
TOTAL	0.24	0.49	0.74	1.38	2.03	2.52	3.14	3.33	3.36
(mns)									
Births	3.03	9.09	16.92	24.72	30.42	37.76	41.62	41.99	

We have not attempted to forecast the entry pattern that would prevail in the absence of controls – the issues are very complicated and the uncertainties great – but for some comparative purposes we have used an alternative assumption of entry for all groups at constant rates over the seven years (Table 3.4).

TABLE 3.3

## Arrivals from Hongkong with controls

## Male Arrivals

0-4	0	0	0	30761	30761	30761	30761
5-9	0	0	0	32375	32375	32375	32375
10-15	0	0	0	34307	34307	34307	34307
15-19	0	0	0	35234	35234	35234	35234
20-24	24444	24444	24444	24444	24444	24444	24444
25-29	26433	26433	26433	26433	26433	26433	26433
30-34	22102	22102	22102	22102	22102	22102	22102
35-39	18440	18440	18440	18440	18440	18440	18440
40-44	11393	11393	11393	11393	11393	11393	11393
45-49	11916	11916	11916	11916	11916	11916	11916
50-54	12372	12372	12372	12372	12372	12372	12372
55-59	0	0	0	19274	19274	19274	19274
60-64	0	0	0	15713	15713	15713	15713
65+	0	0	0	25767	25767	25767	25767







## Female arrivals

0-4	16150	16150	16150	16150	16150	16150	16150
5-9	17162	17162	17162	17162	17162	17162	17162
10-14	17885	17885	17885	17885	17885	17885	17885
15-19	18550	18550	18550	18550	18550	18550	18550
20-24	23686	23686	23686	23686	23686	23686	23686
25-29	25134	25134	25134	25134	25134	25134	25134
30-34	20430	20430	20430	20430	20430	20430	20430
35-39	16305	16305	16305	16305	16305	16305	16305
40-44	9351	9351	9351	9351	9351	9351	9351
45-49	10029	10029	10029	10029	10029	10029	10029
50-54	10702	10702	10702	10702	10702	10702	10702
55-59	10205	10205	10205	10205	10205	10205	10205
60-65	8987	8987	8987	8987	8987	8987	8987
65+	20293	20293	20293	20293	20293	20293	20293

First, the existing population of ethnic Chinese is small – probably 90-100,000 against an immigrant total of 3.24 million. Second, its industrial and occupational structure is substantially different from Hongkong UK passport holders. Some 90 per cent of the existing ethnic Chinese population is engaged in the catering trade, while for the Hongkong population 43 per cent are in manufacturing, nine per cent in finance, insurance and business services, 10 per cent in community and social services, and only eight per cent in catering. If one takes the related activities of retail and wholesale distribution, import and export, which bear some relationship to the catering trade, some 21 per cent of the Hongkong population is so engaged, but even so the industrial and occupational structure of the potential immigrant population is substantially different from that of the current ethnic Chinese population resident in the UK.

A third reason why the immigrants would not locate as the existing Chinese population is decisive: the property market will prevent it. High property prices in the South-East, and especially London, will make such locations infeasible.

An alternative assumption, that the geographic distribution of immigrants is the same as the distribution of the existing total UK population, is given in Column 1 of Table 3.4. This implies a reduction in concentration in the South-East (from 46 per cent to 31 per cent) and in London (from 25 per cent to 12 per cent) with correspondingly more in the Northern regions where property prices are lower.

This represents a feasible distribution and we have calculated housing costs on the basis of it. It is not however a desirable outcome. There is still an excessive concentration of immigrants in the congested areas of the South-East with substantial problems of infrastructure and housing in consequence.

In our view these levels of immigration need positive locational planning to provide the housing stock, which will need at least a substantial public presence both to ensure that the housing needs are met, and to provide the land for associated industry. It will be necessary to provide locations where the substantial concentrations of economic activity may be continued with minimum disruption.

This is necessary both to reduce the impact of the immigration on public expenditure, and to ensure the realisation of the potential benefits to the balance of payments.

The places where land is available and relatively cheap are in the major cities and industrial areas of the northern regions, where the population is forecast to decline over the period during which the immigration should occur. The principal places in this category are set out in Table 3.7.



TABLE 3.5

Comparison of location of Hongkong-born residents with Total GB population

Region	% of population	% of HK residents
Scotland	9.40	8.23
Wales	5.13	3.55
North	5.73	4.21
Tyneside	(2.12)	(2.06)
Yorkshire & Humberside	8.98	6.17
W. Yorkshire Conurbation	(3.77)	(2.72)
East Midlands	7.06	5.14
East Anglia	3.45	2.61
South-East	30.91	46.16
Greater London	(12.34)	(24.67)
South-West	7.94	6.56
West Midlands	9.52	6.16
W. Midlands Conurbation	(4.91)	(3.33)
North-West	11.88	11.11
Greater Manchester	(4.81)	(5.20)
Merseyside	(2.81)	(3.56)
		100.00

Source: 1981 Census

TABLE 3.6

Regional distribution of Hongkong immigrants on alternative assumptions

Population	UK		UK Regional		Declining areas	
	No.	%	No.	%	No.	%
Scotland	249	8.2	284	9.4	351	10.8
Wales	107	3.6	155	5.1	185	5.7
North	127	4.2	173	5.7	216	6.7
York, Humberside	187	6.2	272	9.0	328	10.1
East Midlands	155	5.1	213	7.1	184	5.7
East Anglia	79	2.6	104	3.5	90	2.8
South East	1396	46.2	935	31.0	805	24.8
Greater London	746	24.7	373	12.3	321	9.9
South West	198	6.6	240	7.9	207	6.4
West Midlands	186	6.2	288	9.5	352	10.9
North-West	336	11.1	359	11.9	523	16.1



Our third scenario is to direct the Hongkong immigrants using the provision of housing and the system of grants and loans for industry, so as to raise the population growth of the declining areas to the national average growth rate, and to distribute the rest of the immigration in proportion to the existing UK population.

The results of doing this are shown in Table 6, Column 3. In comparison with the distribution according to existing population concentrations, it results in a further fall in concentration in the South-East (down to 25 per cent) and London (down to 10 per cent), and creates sufficiently high concentrations of immigrants to form the critical mass necessary to sustain a continuation of the types of manufacturing activity previously carried out in Hongkong.

These are located in the North-West region with centres in Merseyside and Greater Manchester; Yorkshire and Humberside, principally in South Yorkshire; the West Midlands and Scotland. The population concentrations would be sufficient to provide the retail, wholesale distribution, catering and other services which these populations require.

In contrast with the alternative, it provides a considerable reduction in housing costs and in problems of transport provision. We have assumed no reductions in capital formation on health and education from this allocation, though there would possibly be some savings here.

Thus 46 per cent in the South East and 25 per cent in Greater London; otherwise concentrations only in Greater Manchester and Merseyside but these are of little significance.

TABLE 3.7

	population 1985 (thousands) 1985-2001	predicted decline
Greater Manchester	2582.7	71.1
Merseyside	1481.1	136.8
Tyne and Wear	1139.8	63.2
West Yorkshire	2052.9	1.2
West Midlands	2641.7	50.1
Cleveland	560.1	19.9
Durham	600.9	13.1
Humberside	849.9	11.0
Scotland	5112.0	8.0



## CHAPTER 4

### HOUSING

THIS section of the Report first considers likely demand for housing in relation to UK resources both nationally and regionally. It then considers the policy and financial implications.

Because of the extremely large effect this sector has on the economy we have decided to produce our calculations on two assumptions. A): The entire 3.25 million British passport holders come to the UK and B): Only one million come to the UK.

#### HOUSING IN HONGKONG

The vast majority of Hongkong households live in publicly or privately provided flats. About 35 per cent of households are owner occupiers. Flats vary in quality but most are cramped by UK standards: older Hongkong Housing Authority flats typically providing 16 square metres, newer flats providing perhaps twice this. Rents are low in the public sector (median monthly rent HK\$350 (29) or seven per cent of household income in 1986) but quite high in the private sector (median HK\$1,794 (150) or 22 per cent of household income). Despite these differences we have assumed that UK housing would be provided at typical UK standards and costs.

#### HOUSEHOLDS

The 5.396 million Hongkong population was composed of 1.453 million households in 1986. We have assumed that the 3.24 million British Passport holders have the same household size distribution as the 1986 Hong Kong population as a whole. The median size of Hongkong households is four persons and only seven per cent consist of more than six persons. For comparison the median size of British households is two persons and two per cent consist of more than six people (Hongkong Annual Digest of Statistics 1986, Table 2.6; Social Trends 69, Table 2.2). We have assumed throughout this section of the Report that net household formation amongst the arrivals from Hongkong once they are in the UK is zero, in other words that the number of new households created is matched by the loss of old households.

In our calculations we have not taken account of the fact that older people are under-represented in the sub-population of British passport holders. In the European situation, a smaller proportion of old people translates into a smaller proportion of single-person households. However we have no hard evidence that this is the case in Hongkong, where it is possible that a high proportion of elderly people live with their adult children.

Table 4.1

Currently Forecast Changes in the UK Housing Stock  
and Additional Demand from Hong Kong Arrivals  
GB 1988-1996  
(Thousands of Dwellings)

	1988	1989	1990	1991	1992	1993	1994	1995	1996
Current Forecasts									
Gains									
New building	211	198	191	194	195	195	195	195	195
Other	12	12	12	12	12	12	12	12	12
Losses									
Slum clearance	9	9	9	9	9	9	9	9	9
Other	11	11	11	11	11	11	11	11	11
Net Gain	203	183	186	187	187	187	187	187	187
Additional Demand for New Building									
Assumption A	-	-	125	125	125	125	125	125	125
Assumption B	-	-	38	38	38	38	38	38	38

Sources: New Building 1988-1991, NEDO Construction Forecasts 1989-1990-1991 (NEDO June 1989); other figures: own estimates



## HOUSING DEMAND

We have assumed that the number of additional dwellings required is equivalent to the number of households arriving. This is obviously a generous assumption: grouping together all single person households into three person households would reduce the overall demand for separate dwellings by about 10 per cent. Table 4.1 compares the number of dwellings required to house the arrivals from Hongkong with the forecast gains and losses of the UK housing stock in the 1988-1997 period. We have assumed that there is no scope for reducing the annual losses sustained by the housing stock from slum clearance and other sources and no scope for increasing the gains to the housing stock from renovations, conversions or other sources. This means that all the additional demand for housing must be met by new building, either for the new arrivals themselves or for those they displace from existing dwellings.

On Assumption A this demand is very large in relation to forecast new housebuilding: in the period 1990-1996 it represents a 64 or 65 per cent increase. On Assumption B this increase is about 20 per cent. Nevertheless, housebuilding in Britain was at very low levels in 1988 and, as Table 4.1 shows, is forecast to decline further. This means that even on Assumption A the total annual demand for new house building (GB plus Hongkong arrivals) at between 316 and 320 thousand dwellings is well within the range of British experience: housebuilding completions exceeded 320 thousand in every year from 1964 to 1972 and in 1976 (Housing and Construction Statistics 1977-1987, p.xiv and Table 6.1(d)).

On Assumption B the total annual demand at between 229 and 233 thousand dwellings has been exceeded by British completions in every year from 1963 to 1980. Moreover, because of the expected decline in housebuilding on current forecasts, the total annual demand for new housebuilding (GB plus Hongkong arrivals) during 1990-1996 would be 50 per cent above 1988 levels on Assumption A and only eight per cent above 1988 levels on Assumption B.

## SUPPLY OF NEW HOUSING

There were a number of indications that the UK construction industry was running up against supply constraints in 1988: money earnings increased rapidly and shortages of skilled labour attracted widespread comment; import data suggested an increasing recourse to overseas sourcing for materials (NEDO Construction Forecasts 1989-1990-1991, p.2). This indicates that only modest growth in the output of the construction industry as a whole can be expected in the short term.

The picture is different for any one sector in the construction industry, however. Because many resources can be switched easily and rapidly from other types of construction work (e.g. industrial and commercial construction, repair and maintenance) to housebuilding, the output of houses can be increased rapidly in the short term although when the industry is operating close to supply constraints, this is at the cost of fewer new shops and offices and postponed repairs and maintenance. Housebuilding accounted for only 21 percent of the value of the construction industry's output in 1988 (Housing and Construction Statistics December Quarter 1988, Table 2.3). This means that the 50 per cent increase in housebuilding over 1988 levels required on our Assumption A requires only about 10 per cent of the industry's resources to be shifted into this sector.

On our Assumption B a shift of less than 2 per cent of the industry's resources would accomplish the task. The question of how such shifts in resources can be engineered without inflationary consequences is discussed in sub-section 7, below.

## THE REGIONAL PATTERN OF HOUSING SUPPLY AND DEMAND

Previous groups of migrants to the UK have tended to settle in locations determined by the demand for those migrants' labour. Since arrivals from Hong Kong would not be the result of such 'pull' factors but of 'push' factors, this cannot be assumed in the present case. Nor does the existing industrial distribution of the Hongkong population provide any obvious pointers to the pattern of UK settlement: the prominent industries of Hongkong are either fairly footloose (clothing) or not geographically concentrated (construction, many services).

The only other pointer from past experience of migrations is that later arrivals tend to settle close to earlier arrivals, wherever they may happen to be. However, apart from a concentration in Greater London and to a much lesser extent in Greater Manchester and Merseyside, the distribution of present UK residents born in Hong Kong is fairly evenly spread throughout Great Britain. The regional distribution of new settlement is to some extent a policy variable. Arrivals can be encouraged to settle in particular areas by the provision of housing and other amenities for example. We investigated the consequences of a policy designed to concentrate settlement in those cities and regions of Britain which are likely to experience declining populations by the end of the century.



Specifically, we allocated sufficient arrivals to the declining cities and regions to bring their population growth up to the average and then allocated the remaining arrivals evenly over the country. We compare this policy with the pattern of settlement that would emerge if the new arrivals settled in the same pattern as the currently UK resident, Hong Kong born population on the one hand and the pattern that would emerge if the new arrivals settled in the same pattern as the whole GB population.

Annual Additions to Housing Demand  
by Region and 1988 Completions  
Additions to Housing Demand  
Arrivals Distributed according to:  
Hong Kong

Region	Declining Cities Policy	UK Population	born UK residents	1988 Completions
Scotland	13,457	11,712	10,255	17,444
Wales	7,102	6,392	4,423	9,332
England				
North	8,348	7,140	5,246	8,634
Yorks & Humberside	12,585	11,189	7,688	17,011
E. Midlands	7,102	8,797	6,404	20,228
E. Anglia	3,489	4,299	3,252	13,028
South East				
ex Greater London	18,565	23,138	26,777	54,882
Greater London	12,335	15,376	30,739	13,599
South West	7,979	9,893	8,174	23,609
West Midlands	13,581	11,862	7,675	17,596
North West	20,061	14,802	13,843	18,125
GB	124,600	124,600	124,600	242,188

Source: 1981 Census; Housing and Construction Statistics  
December Quarter 1988, Tables 1.2, 1.3.

Table 4.2 gives the annual flow of Hongkong arrivals to the regions over the years 1990-1996 on these assumptions and compares these flows with 1988 house completions. This table is based on our Assumption A of 3.24 million arrivals. The main difference between our three sets of assumptions is the degree of concentration of the new arrivals and their requirements for housing in Greater London: no assumption implies less than a doubling of housing completions in London compared with 1988. The problems are least for London under the Declining Cities Policy and greatest if the new arrivals settle in the same pattern as the currently resident Hong Kong born, which would require a tripling of housing completions in London. The table also indicates that housing problems may be of greater than average difficulty in the North and North West.

#### POLICY AND PUBLIC EXPENDITURE IMPLICATIONS

There are broadly two methods by which housing can be provided for Hong Kong immigrants: the first is through the operation of the free market, the second is through state intervention. The free market solution would work as follows. The inflow of arrivals from Hong Kong would generate an increase in demand for housing. Because we have assumed the wage levels of the new arrivals will be very low, at least at first, this demand will be concentrated in the private rented sector and rents in this sector can be expected to increase, especially in areas where the immigration is concentrated like Greater London. Because the new arrivals from Hong Kong are accustomed to extremely cramped living conditions by UK standards, we would also expect to see a substantial degree of multi-occupancy and over-crowding amongst the Hong Kong immigrant population. Higher rents in the private sector should encourage the supply of housing for rent, specifically the conversion of some of the existing stock of owner-occupied houses into flats. The former owners of such converted houses would add to the general demand for housing and so the increase in demand spreads out throughout the entire housing market. Eventually, higher housing prices encourage private sector house builders to increase the output of new houses.

The increase in demand in the private rented sector that fuels this process would be very large in relation to the existing supply of private sector dwellings for rent. Table 4.3 shows the situation that could arise in Greater London, the area in which we expect most stress:

Thus the increase in demand in the private rented sector could be of the order of 11 per cent in the first



year of immigration alone. Nevertheless the stock of owner occupied dwellings – some of which could be converted into flats for rent – is relatively very large: the first year household immigration is less than two per cent of this stock and when it is recalled that each house may be converted into a number of flats the scale of the immigration begins to look relatively small.

Demand and Supply of Private Rented.  
Accommodation. Greater London. December 1988

Dwellings rented from private owners	284,000
Annual increase in requirements for dwellings from Hong Kong immigrants (worst case)	31,000
Owner-occupied dwellings	1,673,000
Source: Housing and Construction Statistics December Quarter 1988 Table 2.24	

The success of the free market solution therefore depends on the speed with which houses can be converted to flats (and, of course, how fast new houses or flats can be built to house the former owners of the converted dwellings). This returns us to the question of resources considered above, where we concluded that relatively small shifts in the resources of the construction industry as a whole would be sufficient to provide the housing required by the Hong Kong arrivals. However, there may be a case for 'assisting the market' by the provision of conversion grants or subsidies.

The public expenditure implications of the free market solution are minor. Apart from any expenditure on the conversion grants or subsidies mentioned above, the new privately built housing that emerges from the free market process has to be serviced by additional roads, sewerage and street lighting etc. We have not attempted to cost such expenditure but believe it would be minor. The higher level of private sector rents which provides the motor force for the free market solution has implications for Housing Benefit payments. The scale of the likely increase in Housing Benefits is difficult to forecast and we have not done so.

The alternative to the free market solution is state intervention in the housing market. We have focussed on the implications of the public provision of housing via local authorities and housing associations. We recognise the organisational difficulties involved in a rapid expansion of public building programmes which are currently at historically low levels but do not consider these to be insuperable.

The costs of public housing provision can be divided into two types: first of all, there are those which represent a direct call on GDP and which represent a real resource cost: for example construction costs, the cost of site works etc. Secondly, there are transfers from the public sector to the private sector, although these require financing, they do not represent calls on GDP: the primary example is the cost of acquiring land. The cost to the economy consists only of the resource costs; the costs to the Exchequer include both the resource costs and the transfers to the private sector but are offset to some degree by the receipt of rental income.

#### TRANSFERS: LAND ACQUISITION COSTS

Building land prices in the UK vary by a factor of ten between Greater London and the North of England. The regional distribution of the Hong Kong arrivals therefore has a significant effect on total land acquisition costs. Table 4.4 shows the costs of land acquisition by region on the same assumptions we used in Table 4.2. These costs are based on assumptions about housing density which reflect current local authority building practice in the regions concerned. It will be seen that even on the most favourable assumptions land acquisition costs are heavy: not less than 1.5 billion annually for seven years.

#### RESOURCE COSTS

We estimate the average unit construction cost of a dwelling at 34,700 in 1988 market prices. This is a weighted average of costs for a mix of different types of accommodation appropriate to the household size distribution of the Hong Kong arrivals. The estimate is based on 1987 public sector housebuilding contract prices in England and Wales updated by the relevant price indices and grossed up by a 37 per cent mark-up to allow for the cost of site works and fees. On this basis the annual housebuilding costs 1990-96 come to 4.3 billion on our Assumption A (3.24 million arrivals) and 1.3 billion on our Assumption B (100 million arrivals).



## EXCHEQUER COSTS

The sum of resource and transfer costs less income from rents represents the net cost to the Exchequer which requires financing by taxation or borrowing. We have assumed a notional 0.5 billion in rent payments in the middle of the migration period, 1993. Our estimate of the Exchequer costs is therefore in the range of 5.4 to 6.1 billion annually for the period 1990-96.

## POLICY EVALUATION

The free market solution and the state provision solution differ enormously in their Exchequer costs. In the state provision solution these costs are ultimately born by tax payers as a whole and the benefits are received by the Hong Kong arrivals. The free market solution is not costless. However there the costs are born by the existing arrivals and tenants in the private sector who suffer increased rents. The benefits are received by landlords and owner occupiers who will see the value of their properties rise. The choice between the two policies therefore rests on distributional considerations and is not amenable to useful economic analysis.

TABLE 4.4  
Land Acquisition Costs by Region  
Annual 1990-96 (m)

Region	Arrivals distributed according to Hongkong		
	Declining Cities Policy	UK Population	born UK residents
Scotland	67	58	51
Wale	20	18	13
England			
North	47	40	30
Yorks & Humberside	61	54	37
E. Midlands	68	85	62
South East			
ex Greater London	325	404	468
Greater London	517	644	1,291
South West	109	135	112
West Midlands	195	170	110
North West	139	102	96
G B	1,574	1,743	2,295

Source: Housing and Construction Statistics 1977-87, Tables 6.16; Housing and Construction Statistics December Quarter 1988 Table 2.2 and own estimates



## CHAPTER 5

### PUBLIC EXPENDITURE

**PUBLIC** expenditure is close to the worries of a large number of people for different reasons. Would an increase in population lead to a deterioration in services? Would hospital queues get longer, and the situation in schools deteriorate? Would an influx lead to a big increase in taxes to pay for additional services, or to higher public borrowing? Is a population increase likely to lead to economic problems as greater demands are placed on society's resources and the ability of the economy to meet the increase in needs?

To answer these questions we have looked into the way in which population shifts are translated into needs which will place a demand on public services, and to the impact of these on the economy as a whole. Later chapters of this study deal with the macro-economic of the British economy. They take as an input the results of analysing increasing demands through the mechanisms of social provision and public financing. We deal here with the quantification of these effects and the implications they hold for public services.

In government statistics and planning methods, government spending is conventionally broken down into categories which reflect either different needs or institutional arrangements for administering policies. Broadly these can be thought of as defence, health, education, social welfare payments and pensions, housing and transport, and the wide range of additional activities (policing, arts, foreign aid etc.). The channels through which demands for increased public provision are created are well understood. Defence spending is unlikely to be significantly affected by increases in population. The impact on public housing spending is explored above in chapter 4, and this is a most important area when considering public finance and taxation (in particular transfers from the taxpayer to owners of development land), but less so when considering resource costs. From the point of view of the economy as a whole, provision of housing by the public sector has similar economic impacts to provision through private building and sale. The factors which govern spending on education and health, and transport and on social benefit payments are dealt with in more detail in the following sections.

#### SOCIAL TRANSFERS

In this category are included such things as pensions, income support, family credit, child benefit, unemployment benefit and invalidity benefit. It is highly implausible that all the Hongkong-born residents of the UK would simultaneously find themselves without the means for self-sufficiency. Nevertheless, the question is one which will be raised in the popular consciousness.

Unlike other forms of public spending, transfers make no direct impact on the use of economic resources, but operate indirectly as either public borrowing (broadly the Public Spending Borrowing Requirement - PSBR) rises or tax payers have less income to spend, and benefit recipients with different consumption patterns spend the receipts. In practice, the inter-connections of the economy invalidate simple calculations based on numbers of initial recipients.

The need to expand output to house and make provision for a substantially larger population has major consequences for economic activity, leading to a situation where even in the extreme (and historically unprecedented) case where the new arrivals make little contribution to economic activity, the need to produce goods and services to meet their needs leads to greater output in the economy as a whole.

The result of this is that social payments to otherwise unemployed households are saved, and tax income to the government rises i.e. the impact of increased economic activity acutely reduces the expenditure cost of maintaining additional households. This effect is made more pronounced as the demographic structure of Hongkong gives it a lower dependency ratio than the UK - there is a larger proportion of workers to produce income and a lower proportion of unproductive dependants.

#### EDUCATION

Educational spending is distributed between provision of basic primary and secondary education, universities, polytechnics and other further and higher education, and provision for the under fives. There are about 7 million children currently in schooling in the UK, around a half a million in further education and a further quarter of a million in higher education. The situation is, however, highly dynamic. In schools, the total number of pupils fell between 1983 and 1988 by 590,000 - almost exactly the same as the number of children between five and 14 who would come to the UK should all 3.2 million Hongkong British passport holders arrive.

The gradual arrival of children from Hongkong as outlined in the demographic tables above would



broadly produce an increase of around 7% more primary school children and 10% more in secondary schools by 1997.

The UK government's own spending plans provide for an additional 100,000 primary pupils between 1989 and 1992 and an additional 30,000 children under five. These increases are offset by falling numbers in secondary schools which would leave the total numbers of planned educational places static to 1992.

Although English is taught in Hongkong schools, it is unrealistic to expect that children coming from Hongkong could be immediately catered for by the existing mainstream educational system. Already other minority communities, including the Cantonese-speaking community already resident in the UK, require special attention and attempts are being made to cater for children whose mother tongue is not English, both through the teaching of English as a second language and through the provision of mother-tongue teaching. The immediate need would therefore be to provide some continuity between the Hongkong and English educational systems. The inability of the indigenous UK system to provide enough Chinese speaking teachers would be a major difficulty.

Initially, therefore, much of the increased demand for teachers would have to be met by the corresponding arrival of teachers from Hongkong. This limits the immediate need for large increases in teacher training provision. Capital spending, however, needs to take place well before the arrival of pupils in order to ensure adequate physical provision. The phasing of capital spending presents some difficulties as spending is not spread evenly over the lifetime of the building programme.

#### HEALTH

Our estimates of additional spending on health are based on the population projection of the immigrant population under the controlled entry entry assumption given in table 3.2.

Current expenditure is estimated from the per capita expenditure by age group table in the UK government's published spending plans (Command 614, January 1989) adjusted to National Income Blue Book definitions. Per capita expenditure is less than that for the existing population because of the lower crude dependency ratio among the Hongkong population, and especially the small proportion of the population that is above retirement age.

Capital spending on health is based on a regression of UK GDFCF in Health at constant prices on demographic variables (total population; numbers of children; numbers of adults aged 65-75 and over 75). A lead of 2 years of capital formation on demographic variables is assumed.

#### OTHER PUBLIC SPENDING

The major item of other public spending is the defence budget. We have assumed no increase in defence spending as a result of higher population. Clearly there would be a potential demand on other social services. In practice, however, this is very much at the discretion of government. Unlike the other major areas of spending, resource-based standards are not clear. This and other public spending (police, local services etc) are assumed to rise in proportion with the increase in population.

#### TRANSPORT

While recognising that, in practice, it is highly unlikely that all British passport-holders currently resident in Hongkong will choose to settle in the UK, as in the rest of this book, we have taken this hypothetical 'worst case' as our premise for estimating the effects on the British transport industry. The following observations are therefore based on the assumption that there will be an influx of some 3.24 million by 1996, with age, sex and locational distribution set out elsewhere. The most germane characteristics of these distributions would appear to be the likely concentrations in London and the South East and in the declining cities in most regions, the high proportion in working age groups, and the high proportion of relatively low skilled and low income members of the new population.

#### THE UK TRANSPORT BACKGROUND

Public transport in the U.K. is increasingly becoming a private sector, commercial activity. With the exception of London, the bus industry has been deregulated; with subsidies only provided on the basis of commercial tendering for specific unremunerative activities and for the maintenance of concessionary fares, predominantly to the elderly. Rail transport is still provided by a nationalised undertaking, but with increasingly strict financial targets; by the 1990s long distance (Inter-City) services will be purely commercial, and London and South East commuting services will be moving towards total cost recovery through increased real fares; only the provincial passenger services will remain in receipt of substantial subsidy.

As far as roads are concerned, car ownership per head will have risen by 17% between 1982 and



1990, and is forecast to rise by another 8% or 9% by 1997. Between 1987 and 2000 it is forecast that all traffic will rise between 12% and 28%. The consequence of this has been that road traffic speeds in the major conurbations appear to be falling. On primary roads the average speeds are continuing to rise slightly despite one or two notable cases of congested motorways (M1 and M25).

### LABOUR SUPPLY PROBLEMS

Without a full input/output analysis, estimates of the effects on the labour market are naive. However there is one observation which can be made fairly safely. Because transport involves a relatively high proportion of low skilled labour it has traditionally been very dependent on immigrant labour, particularly in London and the South East. Both London Regional Transport and British Rail Network South East have experienced shortages of labour in recent years, resulting in losses of service. The effects of relieving this shortage might also reduce somewhat the wage pressure in this area.

### RAIL TRANSPORT DEMAND AND FINANCE

The problems of non-metropolitan rail service are predominantly those of securing enough patronage to maintain a minimum acceptable level of service. There is normally adequate excess capacity. Hence any extra patronage would be at near marginal cost, and would serve to reduce the revenue support requirement. In some of the metropolitan counties there is now peak hour rail congestion which would be exacerbated by any increase in rail commuting, but which might be handled without extra support cost if increased patronage justified increased train size. In London and the South East, however, commuter patronage increased by over 16% between 1984 and 1987 creating problems of overcrowding.

Tube commuting increased by 42% between 1982 and 1987. The likely concentration of new population in London and the South East, and its likely dependence on rail transport commuting is therefore likely to provide some capacity problems. If of the projected additional population of the South East of approximately 1.6 million only some 5% were to be rail commuters, that would still increase the peak hour demand on the commuting railways by about 10%.

### BUS TRANSPORT

In 1987/8 the published levels of government expenditure on road passenger transport were as follows:

Fuel duty rebate .....	135.0
Rural bus grant .....	17.0
Concessionary fares .....	349.0
Revenue support .....	324.0

Fuel duty rebate is of course a repayment of tax paid, and even if there is a higher bus mileage resulting from extra demand, this is not an extra charge on the exchequer. There is thus no additional burden in this respect even if extra bus miles are supplied.

Rural bus grant is paid to maintain certain unremunerative services with low patronage and is thus likely to diminish, rather than increase if demand increases.

Concessionary fares are subsidies paid to the operators in respect of the carriage of certain categories of passengers at preferential fares. Given the age distribution of the expected immigrant population it would appear that perhaps about 10%, or 300,000, would be in the relevant categories. It would appear on this calculation that the concessionary fare support would be increased by an amount slightly less, proportionally, than the increase in total population.

However, insofar as the local authorities determine the nature of the support that they are giving in the light of the overall financial position and the demands upon them, then it could be that the burden of this extra support was distributed amongst existing beneficiaries by a reduction in the concession rate. This would keep the total charge at some predetermined level.

Revenue support goes to the maintenance of services which are considered socially desirable by the responsible authorities but which are not provided voluntarily by the operators as a commercial proposition. For the most part, this support goes for the maintenance of services in areas or at times of low demand, and relates to vehicles operating with much spare capacity. It is thus likely that an increase in the resident population of bus users would have the effect of reducing the amount of revenue support required, and would, moreover, make it possible to support higher levels of service commercially.

The probability that the immigrant population would be relatively highly dependent on public transport would thus be likely on this score to be a benefit both to the exchequer and to other users.

The balance of these considerations leads us to conclude that, in respect of bus transport, the immigrant population would create benefits for the economy.



#### ROAD CONGESTION AND INVESTMENT

The mileage run by all vehicles has increased by 40% over the last decade. Total car mileage has increased by 45%, while that of heavy goods vehicles has only risen by 20%. The increase in the quality of the motorway network has meant that traffic has increased most (by over 100%) on these roads.

As freight traffic appears to increase approximately *pari passu* with GDP, we might expect a further increase in traffic of perhaps five per cent or six per cent to be associated with the immigration, and to be part of the base for growth thereafter. For car traffic, we would expect the immigrant population to have an initial car ownership level very substantially below the national average, so that we might expect an increase in car mileage of only about three per cent.

These increases will obviously increase the pressure on road infrastructure and increase the perceived benefits of further investment. However, given that the criterion for road investment is effectively a ranking criterion for an externally determined budget, the amount of road investment cannot be derived directly from evidence on traffic volumes and/or road performance. In other words, the total amount of spending allocated to roads is not dependent on increasing needs in any straightforward way.



## CHAPTER 6

### THE ECONOMIC IMPACT OF HONGKONG IMMIGRATION THE HONGKONG LABOUR FORCE

IN many ways, the Hongkong workforce has more in common with that of a European than of a third world country.

Sixty eight per cent of the population of working age is economically active (compared with 65 per cent in the UK), of whom just over half work in industry and just under half in services. The proportion working in agriculture, two per cent, is even smaller than that in the UK, which stood at three per cent in 1986.

Table 6.1 compares the two labour forces by broad industrial sector:

TABLE 6.1

Labour force as % working age population, 1986			
	Total	Hongkong	UK
% in agriculture		68	65
% in industry		2	3
% in services		51	38
		47	50

Source: World Bank Annual Report, 1988.

THERE is obviously still a greater bias towards productive industry than in Britain, but

In the decade 1976-1986, for instance, the proportion of the working population employed in manufacturing industry fell from 45 per cent to 36 per cent, while the finance, insurance, real estate and business services sector doubled from three per cent to six per cent.

The distribution and catering sector expanded its share from 19 per cent to 22 per cent of the working population. Employment in other service industries increased too, from 15 per cent to 18 per cent.

TABLE 6.2

Working population by Industry, 1976, 1981 and 1986			
1986			
Labour force as % working age population		68	65
% in agriculture		2	3
% in industry		51	38
% in services		47	59

Source: 1986 Hongkong bi-census of population.

A closer look at the workforce employed in manufacturing reveals it to be heavily concentrated in relatively few industries: the clothing industry, which constitutes 29 per cent of all manufacturing employment; electrical machinery and textiles which each account for 14 per cent; and plastics, which makes up 9 per cent of the total.

A high proportion of the plastics sector is devoted to the manufacture of toys, of which Hongkong is still the world's largest producer. The manufacturing sector also includes light industries producing such items as watches, clocks, handbags, travel goods, jewellery, optical and photographic products and metal products.

TABLE 6.2

Manufacturing employment, September 1988

Sector	Number	%
Total	844,575	100
Clothing	247,724	29
Electrical machinery	118,524	14
o/w electronics	85,232	10
Textiles	116,931	14
o/w knitwear	44,526	5
Plastics	72,412	9
o/w toys	30,675	4



Despite a relative decline in the manufacturing sector, these industries have not stood still in recent years, and neither have the skills of their workers. The clothing industry has moved steadily up-market during the 80s and now mainly produces high-quality fashion garments. During 1985, in response to changes in US country of origin rules, many firms in the knitwear sector invested heavily in modern computerised machinery.

The electronic industry too has advanced rapidly from merely assembling simple products like radios to producing a wide range of sophisticated IT products (Lloyds Bank, Hongkong Economic Report, 1986).

It is possible that part of the explanation for the higher proportion of the working population apparently employed in manufacturing in Hongkong is a reflection of a difference in organisational structures compared with other countries such as the UK, the USA and Japan, where a recent growth in the subcontracting of service functions by manufacturing companies has resulted in the reclassification of large numbers of workers into service industries without much real change in the type of work being carried out.

**TABLE 6.4**  
Working Population by Occupation, 1976, 1981 and 1986

Occupation % % %		1976		1981		1986
Professional, technical & related workers	101,930	5.5	143,700	6.0	220,528	8.3
Administrative and managerial workers	39,930	2.2	64,106	2.7	95,417	3.6
Clerical and related workers	179,780	9.7	293,905	12.2	385,587	14.6
Sales workers	213,350	11.6	247,924	10.3	309,059	11.7
Service workers	274,600	14.8	374,093	15.6	429,389	16.2
Agricultural workers & fishermen	49,000	2.7	50,676	2.1	50,150	1.9
Production & related workers, transport equipment operators and labourers	963,230	52.1	1,212,545	50.4	1,143,280	43.3
Armed forces and unclassifiable	24,990	1.4	17,118	0.7	9,863	0.4
<b>TOTAL</b>	<b>1,846,810</b>	<b>100.0</b>	<b>2,404,067</b>	<b>100.0</b>	<b>2,643,273</b>	<b>100.0</b>

Source: 1986 Hongkong bi-census of population.

### OCCUPATIONAL STRUCTURE

An analysis by occupation sheds further light on recent trends, showing a considerable growth in service occupations.

Between 1976 and 1986, professional, technical and related workers grew from five per cent to eight per cent of the working population, despite a heavy brain drain to Canada and other countries during the same period.

The proportion of clerical workers rose from 10 per cent to 15 per cent during the same period, while production workers fell from 52 per cent to 43 per cent. The proportion of managers increased from 2.8 per cent to 3.6 per cent.

This figure is quite high given that the level of self-employment is fairly low, at 4.5 per cent (excluding hawkers). Research at Warwick University suggests that in the UK, a sizeable proportion of the increase in this occupational category is the result of people describing themselves differently when they become self-employed (Wilson and Bosworth, *New forms and New Areas of Employment Growth*, Office for Official Publications of the European Communities, 1987).



TABLE 6.6

Employees by sex, 1976, 1981 and 1986  
Sex and Hours of Work

	1976	%	1981	%	1986	%
<b>MALE</b>						
Under 15	41,230	4.3	17,759	1.3	40,367	2.9
15-24	18,930	2.0	25,891	2.0	26,110	1.9
25-34	24,530	2.6	31,840	2.4	33,555	2.4
35-44	168,200	17.5	263,013	20.0	318,685	22.9
45-54	376,350	39.2	543,228	41.3	544,132	39.1
55-64	173,520	18.1	252,359	19.2	230,855	16.6
65-74	86,140	9.0	106,896	8.1	119,262	8.6
75+	70,050	7.3	75,458	5.7	77,317	5.6
<b>TOTAL</b>	<b>958,950</b>	<b>100.0</b>	<b>1,316,444</b>	<b>100.0</b>	<b>1,390,283</b>	<b>100.0</b>
<b>FEMALE</b>						
Under 15	26,260	5.2	14,264	1.9	30,478	3.6
15-24	11,940	2.4	28,054	3.8	31,533	3.7
25-34	15,920	3.2	28,216	3.8	34,433	4.1
35-44	104,910	20.8	204,902	27.9	286,58	33.9
45-54	245,270	48.7	331,217	45.1	330,17	39.1
55-64	56,050	11.1	82,685	11.2	76,650	9.1
65-74	20,220	4.0	24,879	3.4	32,828	3.9
75+	23,340	4.6	21,326	2.9	21,747	2.6
<b>TOTAL</b>	<b>503,910</b>	<b>100.0</b>	<b>735,543</b>	<b>100.0</b>	<b>844,432</b>	<b>100.0</b>

Source: 1986 Hongkong bi-census of Population.

### PAY AND PRODUCTIVITY

Besides working much longer hours, Hongkong workers reveal their difference from the European or North American pattern in much lower productivity and earning power, despite performing better in these respects than their counterparts in most other Asian countries.

Average per capita income is HK\$74,796, second only to Japan in Asia, but very low by European standards (Financial Times, 22.6.89) as can be seen from Table 6.8, which shows 1986 median monthly earnings by occupation, with sterling equivalents.

TABLE 6.7

Median Hours of work per week of employees by age and sex, 1976, 1981 and 1986

Age Group	1976		1981		1986	
	Male	Female	Male	Female	Male	Female
15-19	51	49	50	48	48	46
20-29	50	47	50	46	47	45
30-39	51	47	50	46	48	45
40-49	52	50	51	48	49	46
50-59	51	52	51	50	49	47
60+	52	54	52	51	49	47
Ov'II	51	48	50	47	48	45

Source: 1986 Hongkong bi-census of Population.



TABLE 6.8

Median monthly employment earnings of employed persons by occupation HK\$

	Oct-Dec 87		Jul-Sep 88		Oct-Dec 88	
Professional admin and managerial workers	7,834	653	8,436	703	8,558	713
Clerical, related	3,331	278	3,674	306	3,795	316
Sales workers	3,561	297	4,315	360	4,382	365
Service workers	3,014	251	3,407	284	3,450	288
Production, related workers, transport equip operators and labour	3,215	268	3,596	300	3,787	316
Others	2,276	190	2,536	211	2,547	212
Overall	3,355	286	3,818	318	3,955	330

Source: General Household survey data.

If transplanted to a more developed economy, like Britain's, the question arises, would this progress continue? Would these Hongkong workers continue to develop their skills and move out of production jobs into service ones, out of low-skilled jobs into technical and professional work? Or would they follow the pattern of other *gast arbeiter* in Europe, and find themselves siphoned into the bottom-most positions in the workforce, filling only the low-skilled jobs which are least attractive to the native labour force?

The answer to this question will depend on political and cultural factors as well as purely socio-economic ones. Nevertheless, an important clue is to be found in the skill composition of the Hongkong workforce.

### SKILLS

From the point of view of assimilation into the UK labour market, perhaps the most important skill of all is the ability to speak, write and understand the English language.

Unfortunately we have little accurate data on the proportion of workers within each occupational group who are able to do so. However certain deductions can be made from the data which does exist. Firstly, it can be assumed that ability to speak English is linked with age. During the past 20 years, access to education has increased rapidly, and English has been increasingly taught in the schools.

It can probably be safely assumed that most people under 25 who have been educated from childhood in Hongkong (a category into which virtually all British passport-holders fall) have some comprehension of English and ability to express themselves in the language.

In 1986, there were 1,040,400 people between the ages of 15 and 25, some 19 per cent of the total population, who could be assumed to fall into this category. This estimate is in fact a highly conservative one, based as it is on the assumption that British passport-holders are evenly distributed throughout the Hongkong population.

In reality, as already noted, it appears that they are under-represented in the older age groups and over-represented in the younger ones. This suggests that they are more likely than average to speak English.

It can further be assumed that there is a direct correlation between ability to speak English and the level of educational achievement. Most people who have completed tertiary education are likely to be



fluent, and people who have completed secondary education to have a passable working knowledge of the language.

In 1986, 16 per cent of the population had taken tertiary degree or non-degree courses or had matriculated from high-school, and could thus be assumed to be able to readily acquire fluency, with a further 27 per cent who had received upper secondary education and therefore can be presumed to have some smattering of the language.

The remainder of the working population will probably require intensive instruction before acquiring sufficient language skills to offer their services freely on the British labour market. This would not, of course, prevent their being employable in a sheltered labour market, within the UK Chinese-speaking community, or in types of manual work requiring little or no communication to be performed effectively.

TABLE 6.9

Structure of manufacturing production 1986

Total output (\$m)	6,739	101,470
Pay as % of output		
% Food	51	45
% Textile, clothing	5	15
% Machinery	39	6
% Chemicals	21	32
	2	11

Source: World Bank Annual Report, 1988.

Speaking English is not, of course, of itself a sufficient qualification to guarantee work. To arrive at a picture of the skills and experience which the Hongkong workforce has to offer on the UK labour market it is also necessary to take account of other factors. One of these is the level of general educational achievement.

Only eight per cent of the workforce has received no schooling whatsoever, with a further 29 per cent which has only completed primary education. In 1984, 12 per cent of the total population was estimated to be functionally illiterate, a proportion which dropped to six per cent among the employed population (Hongkong General Household Survey data).

In 1988, there were 77,000 students in tertiary education. Of these, 22,000 were studying engineering, 19,000 commerce and 6,000 education.

TABLE 6.10

Working Population by Educational attainment and Sex

Educational Attainment	Sex	Total	% work pop
Bo shool/k'garten	M	87,735	8%
	F	126,781	
Primary	M	516,258	29%
	F	254,865	
Lower Secondary	M	381,517	20%
	F	146,243	
Upper Secondary	M	404,632	27%
	F	304,465	
Matriculation	M	110,215	
	F	76,993	
Tert: Non-degree	M	49,476	16%
	F	43,127	
Tert: Degree	M	99,855	
	F	41,111	
TOTAL	M	1,649,688	100%
	F	993,585	
	T	2,643,273	

Source: 1986 Hongkong Bi-census of Population.



In addition, some Hongkong residents were in tertiary education overseas. It was estimated in 1984 that 50,000 local residents, 1.4 per cent of the total population, had returned to Hongkong after receiving formal education above matriculation level abroad.

Of these, more than a quarter had obtained their qualifications in Canada, about one fifth in the United Kingdom and another one fifth in the United States. The corresponding figures for Taiwan and China were one eighth each (General Household Survey data).

In most cases, 52 per cent, the workers concerned were professional or technical staff, but there were also substantial numbers of community, social and personal services personnel (36 per cent), finance sector staff (20 per cent) and administrative and managerial staff (19 per cent).

TABLE 6.11

Tertiary Education by Field of Study

	Number of Students	
	Male	Female
Total	50,302	26,542
Engineering	21,599	547
Commerce	9,017	10,177
Education	2,199	3,808

Source: UNESCO Statistical Annual, 1988.

Another way in which the Hongkong workforce improves its skills is by attending part-time training courses. In 1984, six per cent of workers were doing so.

Both numerically and in percentage terms, the largest group in this category was clerical workers, of whom 16 per cent (63,500 people) were in part-time training. They were followed in importance in percentage terms by finance workers, of whom 14 per cent were attending part-time courses. Here, too, professional and technical workers had a significant presence, with 10 per cent, some 15,000 workers upgrading their skills in this way.

TABLE 6.12

Employed persons who had received formal education above matriculation level abroad by occupation, industry and monthly employment income.

Industry and monthly employment income

Sub-group	No.	%
Professional, tech, related	22.6	51.7
Admin, managerial workers	8.3	19.0
Clerical, related	5.8	13.3
Sales workers	4.9	11.2
Others	2.1	4.8
Industry, manufacturing	6.4	14.7
Construction	3.6	8.2
Wholesale and retail, restaurants and hotels	7.0	16.0
Financing, insurance, real estate, business services	8.7	19.9
Community, social and personal services	15.5	35.5
Others	2.5	5.7
Monthly Employment Income (HK\$)		
Under 5,000	14.3	32.7
5,000 - 9,999	17.3	39.6
10,000 - 14,999	6.0	13.7
15,000 - 19,999	2.9	6.7
20,000+	7.3	
Overall	43.7	100.0

Source: Social Data Collected by the General Household Survey, Census and Statistics Department, Hongkong, 1985.



That a majority of this training was employment-related can be seen from the fact that 37 per cent of attenders stated their main reason for attending as "to obtain occupational training related to present job", while a further 26 per cent said it was 'to obtain better qualifications'.

TABLE 6.13

Participants in part-time courses by occupation and industry

Sub-group	No. ( <sup>0</sup> 000)	Rate* (%)
Profess, tech, related	15.1	10.1
Admin, managerial	3.8	4.1
Clerical, related	63.5	15.9
Sales workers	8.2	3.1
Service workers	7.1	1.8
Production, related, transport, equipment operators, labourers	48.9	4.3
<b>INDUSTRY</b>		
Manufacturing	49.7	5.3
Manufact textiles, wearing apparel	19.6	5.1
Manufact plastic products, metal industries	7.9	3.8
Manuf electrical machinery electronic products	11.8	8.0
Other manufacturing	10.4	5.4
Construction	4.4	8.4
Wholesale, retail trade, restaurants and hotels	24.8	4.5
Services	62.1	7.9
Transport, storage, commun'	11.1	5.8
Financing, insurance, real estate, business services	18.9	13.9
Other services	32.1	7.0
Others	1.6	4.0
Overall	146.6	5.9

\* As a percentage of the total number of employed persons in the respective sub-group.

Source: Social Data Collected by the General Household Survey, Census and Statistics Department, Hongkong, 1985.



The occupational nature of the courses is also borne out by the fields of study. Apart from the language courses attended by 27 per cent, the majority were engineering, architecture industrial technology and other vocational studies (21 per cent), accounting and secretarial studies (15 per cent) and business administration, financial management and computer studies (10 per cent). Between them, general studies and other courses accounted for only 27 per cent of courses.

TABLE 6.14

Participants in part-time courses by age, sex, educational level and main reason for taking part-time course  
Main reason for Taking Part-time Course

Sub-group	To obtain training related to job		For knowledge sake/ interest		To obtain better qualification		Others		Total			
	No. ('000)	%	No.	%	No.	%	No.	%	No.	%	Rate%*	
AGE												
15-19	6.1	19.7	8.1	26.2	13.9	45.3	2.7	8.8	30.8	100.0	6.4	
20-24	28.7	38.2	18.9	25.1	20.5	27.2	7.2	9.5	75.3	100.0	13.4	
25-29	15.3	40.8	11.8	31.7	7.0	19.7	3.3	8.8	37.4	100.0	6.7	
30+	11.5	45.7	8.4	33.3	2.5	9.9	2.8	11.1	25.2	100.0	1.1	
SEX												
Male	37.4	43.4	19.6	22.7	21.2	24.7	8.0	9.2	86.2	100.0	4.3	
Female	24.2	29.3	27.6	33.7	22.7	27.5	8.0	9.7	82.5	100.0	4.2	
Educational level												
Primary-		1.0	10.9	4.6	50.0	2.8	30.4	0.8	8.7	9.2	100.0	0.5
Secondary		26.2	28.5	27.0	29.2	30.7	33.4	8.2	8.9	92.1	100.0	5.5
Matric												
post second		7.8	34.2	6.7	29.4	5.7	25.0	2.6	11.4	22.8	100.0	10
10.6												
University												
Tech		3.3	41.8	3.4	43.0	0.7	8.8	0.5	6.4	7.9	100.0	7.6
Vocational		23.3	63.3	5.5	15.2	4.0	10.9	3.9	10.6	36.7	100.0	24.0
Overall		61.6	36.5	47.2	28.0	43.9	26.0	16.0	9.5	168.7	100.0	4.2

\* As a percentage of the total number of persons in the respective sub-group. Source: Social Data Collected by the General Household Survey, Census and Statistics Department, Hongkong, 1985).



This bias towards vocational training is also to be found in full-time tertiary education, as can be seen from Figure 6.16.

TABLE 6.15

Participants in part-time courses by field of study and type of organisation running the course		
Sub-group	No. ( '000)	%
Field of study		
Language	45.0	26.7
Architect/Engineer/Indust	34.7	20.6
Technology/Other vocational studies		
and general studies	25.9	15.4
Accounting & secretarial studies	25.9	15.3
Business admin, financial		
management & computer studies	10.3	
Others	19.8	11.7
Type of organisation running course		
Universities	7.9	4.7
Polytechnic & technical institutes	35.1	20.8
Other post-secondary institutions	6.2	3.7
Government departments	11.6	6.9
Private schools & educat institutions	63.1	37.4
Professional associations		
& consulate-sponsored institutions	12.1	7.1
Other non-educational institutions		
e.g. unions & Kai-fong associations	27.3	16.2
Correspondence courses sponsored by both		
local & overseas institutions	5.4	3.2
Overall	168.7	100.0

Note: If more than one part-time course was undertaken, the field of study and type of organisation refer to the course which required the longest hours of class attendance per week. Source: Social Data Collected by the General Household Survey, Census and Statistics Department, Hong Kong, 1985).

#### Field of Education of Population with Technical or Tertiary education (Source: Hongkong 1986 Bi-Census)

From this, it can be seen that while there has been a decline in the relative numbers of graduates of the arts and social sciences, pure sciences and education, there has been a

As a proportion of all courses, medicine and architecture and construction engineering, each at just below 10 per cent, fell slightly, but not significantly.

It is likely that most of these changes were the result of increasing numbers of graduates in the expanding areas coming onto the labour market during the period 1981-1986. However it is possible that some of the effects can be attributed to a 'brain drain' in some fields.



## CHAPTER 7

## ECONOMIC IMPACT OF HONGKONG IMMIGRATION

## THE UK LABOUR MARKET

IN the last chapter, we described some of the characteristics of the Hongkong workforce. In this one, we turn to Britain to examine the employment which exists in this country. Having described the UK labour market in this chapter, we will proceed in the next to analyse the extent to which the existing skills of Hongkong workers meet current British needs, and look at the ways in which they may have to adapt to fit in with demand.

The British labour market is one which has undergone major restructuring during the past decade. As a result of a combination of economic, technical and social developments, there have been significant shifts in the regional structure of employment, in industrial structure, and in the composition of the workforce by gender and employment status, occupation and skill. This restructuring is by no means complete, so an accurate picture of the labour market which will await Hongkong immigrants in the 1990s must include, not only a map of the existing, situation but also some indication of future trends.

Table 7.1 shows the distribution of employees by industry between 1971 and 1988. As can be seen from it, during that period employment in manufacturing fell from 8 million to 5 million, while employment in services rose from 12 million to 15 million. Service workers now outnumber manufacturing workers by three to one. Women make up 46% of the workforce, but are very differently distributed between industries from men. While the ratio of service workers to manufacturing workers is less than 2:1 for men, it is nearly 6:1 for women.

These figures should not, of course, be interpreted as a simple representation of the decline of British manufacturing industry. They can partly be explained by an increase in productivity, and are partly a reflection of the statistical reclassification of some groups of workers when service functions formerly carried out in-house are subcontracted to specialist service companies. Examples of the latter are cleaning, catering, road transport and a wide variety of office services.

During the same period there has also been a large increase in self-employment, which leaped from just over 2 million people in 1971 to nearly 3 million in 1988. In percentage terms, this growth was highest in manufacturing industries, where it more than doubled during the period from 131,000 to 265,000. However numerically the growth was greatest in services, where the total grew by 643,000 to reach a 1988 total not far short of 2 million.



TABLE 7.1

## Employees in Employment by Industry

United Kingdom, figures in thousands, 1988

## INDUSTRIAL CLASSIFICATION

	1980	1971	1979	1981	1986	Males	Females	Total
Manufacturing								
Extraction of minerals								
& ores other than fuels, manufacture of metal, mineral products & chemicals	2	1,282	1,147	939 778	592	179	771	
Metal goods, engineering, and vehicle industries	3	3,709	3,374	2,923	2,334	1,751	468	2,219
Other	4	3,074	2,732	2,360	2,125	1,214	893	2,108
Total manufacturing	2-4	8,065	7,253	6,222	5,236	3,557	1,641	5,097
Services								
Distribution, hotels, catering, & repairs	6	3,686	4,257	4,172	4,403	2,043	2,508	4,551
Transport and communication	7	4,556	1,479	1,425	1,340	1,080	293	1,372
Banking, finance, insurance, business services, & leasing	8	1,336	1,647	1,739	2,202	1,239	1,229	2,468
Other	9	5,049	6,197	6,132	6,541	2,509	4,311	6,820
Total services	6-9	11,627	13,580	13,468	14,486	6,870	8,342	15,212
Agriculture, Forestry, and fishing	0	450	380	363	329	230	83	313
Energy and water supply industries	1	798	722	710	539	387	72	459
Construction	5	1,198	1,239	1,130	991	901	121	1,022
All industries and services	0-9	22,139	23,173	21,892	21,581	11,946	10,158	22,104

(Source: Department of Employment data)



One interesting feature of self-employment and of small business ownership in Britain is that people born outside the UK, or whose parents were born elsewhere, are significantly over-represented, with a higher proportion in this category than in self-employment, as can be seen from

**TABLE 7.2**  
**Self-employment by industry**

	Industrial Classification					Males	Females	Total
	1980	1971	1979	1981	1986			
<b>Manufacturing</b>								
Extraction of minerals & ores other than fuels, manufacture of metal, mineral products & chemicals	2	4	6	8	11	9	3	13
Metal goods, engineering & vehicle industries	3	36	42	46	63	70	7	77
Other	4	9	1 93	94	137	130	45	175
<b>TOTAL</b>	<b>2-4</b>	<b>13</b>	<b>1 141</b>	<b>148</b>	<b>211</b>	<b>209</b>	<b>55</b>	<b>265</b>
<b>Services</b>								
Distribution, hotels, catering & repairs	6	747	652	714	798	546	294	840
Transport and communication	7	66	88	101	113	157	8	165
Banking, finance, insurance, business services & leasing	8	152	148	191	278	249	75	324
Other	9	266	238	292	458	272	272	544
<b>TOTAL</b>	<b>6-9</b>	<b>1,231</b>	<b>1,126</b>	<b>1,298</b>	<b>1,646</b>	<b>1,224</b>	<b>650</b>	<b>1,874</b>
<b>Agriculture, forestry and fishing</b>	<b>0</b>	<b>314</b>	<b>286</b>	<b>276</b>	<b>274</b>	<b>239</b>	<b>30</b>	<b>269</b>
<b>Energy and water supply industries</b>	<b>1</b>	<b>-</b>	<b>1</b>		<b>1 1</b>	<b>1</b>	<b>-</b>	<b>1</b>
<b>Construction</b>	<b>5</b>	<b>351</b>	<b>352</b>	<b>396</b>	<b>495</b>	<b>555</b>	<b>21</b>	<b>576</b>
<b>All industries and services</b>	<b>0-9</b>	<b>2,026</b>	<b>1,906</b>	<b>2,119</b>	<b>2,627</b>	<b>2,228</b>	<b>757</b>	<b>2,985</b>

(Source: Department of Employment data)

Turning to an analysis by occupation, we can see that here too there have been major changes. There have been sharp drops in the numbers of skilled engineering and other trades, of "other operatives" and of drivers and mobile machine operators – virtually all manufacturing occupations. Numerically the biggest growth has been in sales occupations, which grew by 381,000 between 1981 and 1987. This was followed by a growth of 237,000 among managers and administrators, some of which can be explained by the expansion of self-employment and the tendency of professionals and skilled trades people to reclassify themselves as managers on becoming self-employed. However in percentage terms the most spectacular growth was in professional occupations, with "other professionals" growing by 45 per cent, "other associate professionals" by 41 per cent and "science and engineering professionals" by 30 per cent during this period. Health and education professionals increased more modestly, although still significantly, by 14 per cent and eight per cent respectively.

#### OCCUPATIONAL STRUCTURE

**TABLE 7.3**

**Ethnicity and Small Business Ownership or Self-Employment, General Household Survey, 1980.**

	Small Business Owners		Self Employed		Employees	
Gender	M	F	M	F	M	F
Born outside the UK in %	11.3 (10.3)	12.3 (12.3)	7.4 (6.0)	4.2 (3.6)	7.1 (5.9)	6.5 (5.1)
Father born outside the UK	15.1 (12.9)	17.5 (15.7)	9.2 (6.9)	8.3 (4.7)	9.3 (6.7)	9.1 (6.2)

Figures in brackets represent proportions with those born in the Republic of Eire excluded. Source: Curran, Burrows and Evandrou, Small Business Owners and the Self-employed in Britain, Small Business Research Trust, 1987)



Forecasts to the year 1995 by the University of Warwick's Institute of Employment Research suggest that, while the rate of growth will slow down, these trends will continue with a growth rate of 12 to 24 per cent across the range of professional occupations. However their projections seem to indicate that the shakeout of labour from manufacturing industry is almost complete, with a continuing fall of only three per cent for drivers and mobile machine operators and other operatives. They predict that skilled engineering trades will rise by two per cent, and other skilled trades by four per cent. Skilled construction trades are projected to increase their growth rate to 16 per cent.

TABLE 7.4  
Total Employment by occupation 1981-1987

		Thousands				
			1981	1987		
Occupation		%	%	%		net
Corp managers, admin	1,592	6.6	1,829	7.4	14.9	237
Manager/prop, services, agric	1,313	5.5	1,326	5.4	1.1	14
Science, engin prof	490	2.0	638	2.6	30.2	148
Health profs	125	0.5	143	0.6	14.1	18
Education profs	941	3.9	1,022	4.1	8.4	79
Other profes	373	1.6	542	2.2	45.3	169
Science, eng's associate profs	662	2.8	704	2.9	6.3	42
Health assoc profes	574	2.4	591	2.4	2.9	16
Other assoc profes	529	2.2	744	3.0	40.7	215
Clerical occupations	3,254	13.6	3,253	13.2	0.0	0
Secretarial occupations	1,105	4.6	1,148	4.7	3.9	43
Skilled engineer trades	1,295	5.4	1,080	4.4	-16.6	-215
Skilled construct trades	537	2.2	585	2.4	9.0	48
Other skilled trades	2,186	9.1	2,029	8.2	-7.2	-157
Protective service occu	348	1.4	333	1.4	-4.2	-15
Personal service occu	1,316	5.5	1,449	5.9	10.1	133
Sales occupations	1,684	7.0	2,065	8.4	22.6	381
Drivers & mobile machine operat	1,018	4.2	887	3.6	-12.8	-131
Other operatives	1,940	8.1	1,677	6.8	-13.6	-263
Other occupations	231	1.0	214	0.9	-7.4	-17
Other occup (exc. agric)	2,498	10.4	2,404	9.7	-3.8	-94
All occupations	24,011		24,663		2.7	652

(Source: Warwick University Institute of Employment Research data)



Although it rose steeply during the early 1980s, the level of unemployment, adjusted to OECD concepts, has recently begun to fall. Table 7.6 shows the percentage rate between 1976 and 1988.

**Table 7.5**  
**Total Employment by Occupation 1987-1995**

Occupation	Thousands					
	1987	1995				
			%	%	%	net
Corporate man, admin	1,829	2,086	7.4	7.9	14.1	257
Manager, prop services, agric	1,326	1,448	5.4	5.5	9.2	122
Science, engin profs	538	774	2.6	2.9	21.2	135
Health profs	143	177	0.6	0.7	24.0	34
Education profs	1,020	1,148	4.1	4.4	12.6	128
Other profs	542	647	2.2	2.5	19.3	104
Science, eng's assoc profs	704	806	2.9	3.1	14.6	103
Health assoc profs	591	719	2.4	2.7	21.7	128
Other assoc profs	744	906	3.0	3.4	21.6	161
Clerical occupations	3,253	3,454	13.2	13.1	6.2	201
Secretarial occupations	1,148	1,211	4.7	4.6	5.5	63
Skilled engin trades	1,080	1,101	4.4	4.2	1.9	20
Skilled construct trades	585	678	2.4	2.6	15.8	92
Other skilled trades	2,029	2,110	8.2	8.0	4.0	81
Protective service occupat	333	354	1.4	1.3	6.3	32
Personal service occup	1,449	1,602	5.9	6.1	10.6	153
Sales occupations	2,065	2,106	8.4	8.0	2.0	41
Drivers, mobile machne operat	887	859	3.6	3.3	-3.2	-29
Other operatives	1,677	1,628	6.8	6.2	-2.9	-49
Other occupations	214	190	0.9	0.7	-11.4	-24
Other occupat (exc. agric)	2,404	2,376	9.7	9.0	-1.2	-28
All occupations	24,663	26,379			7.0	1,716

(Source: Warwick University Institute of Employment Research data)

However this unemployment is very unevenly distributed, both geographically and by ethnic group. As can be seen from the tables, between 1985 and 1987 it rose to 29 per cent among people of Pakistani and Bangladeshi origin, and 22 per cent among people of West Indian origin, although it was only 11 per cent among white people. People of Chinese origin resident in the UK are included in the "other" category, in which the unemployment rate was 17 per cent. However it is not clear to what extent they can be said to be typical of this group in this respect. If qualifications are taken into account, the disparity between sub-groups is even greater, with an unemployment rate of only three per cent among white men with A-level or a higher qualification, less than tenth of the rate for unqualified people of Pakistani or Bangladeshi origin.

**TABLE 7.6**  
**Unemployment rate in the UK adjusted to OECD concepts (percentages)**

1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
5.6	6.0	5.9	5.0	6.4	9.8	11.3	12.5	11.7	11.2	11.2	10.3	8.0

(Source: Main Economic Indicators and Quarterly Labour Force Statistics, OECD)



The disparity in unemployment rates between regions, while not quite so large, is still marked, as can be seen from table 7.8 In Northern Ireland, for instance, it is nearly five times as high as in East Anglia.

TABLE 7.7

Unemployment rates in GB by ethnic group, sex and highest qualification, 1985-1987 in percentages

	A level plus	Other	None	All
<b>MALE</b>				
white	3	9	18	11
West Indian, Guyanese	6	24 25 24		
India	6	13	21	15
Pakistani/Bangladeshi	6	6	31	28
Other	6	18	24	17
<b>FEMALE</b>				
White	5	10	12	10
West Indian, Guyanese	24	6	18	
Indian	6	19	20	18
Pakistani/Bangladeshi	6	6	6	6
Other	6	20	6	16
<b>ALL</b>				
White	4	10	15	11
West Indian	6	24	22	21
Indian	6	15	21	16
Pakistani/Bangladeshi	6	29	32	29
Other	6	19	20	17

Source: Labour Force Surveys. Combined data for 1985 to 1987 inclusive, Department of Employment. Source: Department of Employment data.

## SKILLS

Co-existing with these pockets of high unemployment are areas of acute skill shortage in certain industries and regions. Surveys by the CBI have persistently demonstrated that a proportion of employers in all manufacturing industries experience difficulty in finding suitably skilled staff, a proportion which has grown considerably in recent years. Some of their results are discussed in the next chapter.

Projections of future occupational trends by the University of Warwick's Institute for Employment Research suggest that such shortages will become more acute in the future. Table 7.9 shows the 10 fastest-growing categories of occupation ranked by growth. Absolute growth in employment is shown as "size rank" if the sector is in the top 10 by rank, as most are.

Within regions, such disparities are even greater, with patches of very high unemployment in certain inner city and rural areas.

TABLE 7.8

Unemployment rates in the UK, 2nd Quarter, 1989.

UK	6.6
North	10.3
Yorkshire & Humberside	7.8
East Midlands	5.9
East Anglia	3.5
South East	4.0
South West	4.9
West Midlands	6.5
North West	9.1
Wales	8.6
Scotland	9.8
Northern Ireland	15.6

Source: Employment Gazette.



This information and indications of skilled labour supply to give projections for skill shortages. It is difficult to do this for the managerial category as the course of events here is strongly influenced by the number of new businesses set up. Among professional occupations, demand is expected to grow strongly. The Warwick Institute for Employment Research notes that, "... the prospective decline in the flow of new graduates promises a sharp tightening of the labour market in many cases".

The most likely areas where shortages will be a problem are those such as electronic engineering, business studies and economics and computing which are already facing severe difficulties. Because of the general tightening of the labour market for graduates even those areas where smaller increases in demand are anticipated may experience problems. Among craft and skilled manual occupations skill shortages encountered currently will increase ... the most severe difficulties will probably be for construction craftsmen' (Institute for Employment Research Bulletin, April, 1989).

The problems of training and skills are likely to be compounded by current demographic changes in the UK. The working age population increased by two million in the decade up to 1986 but is expected to rise by only half a million by 1990. During the 1990s less than a million people will be added to the working age population on current projections. The number of school leavers will decline dramatically. Reviewing the situation at a NEDC meeting in April, 1988, the Secretary of State for Employment remarked that, "Many employers will easily be able to obtain the skills they need only if they are prepared to remove unnecessary age and qualification barriers and also play their part in training". Whether or not many qualifications are necessary, the issue of training is unlikely to be resolved quickly.

Compared with other developed countries, Britain's training record is poor. Economic historians have suggested that post-war educational reforms failed to improve the availability of technical education at school with the result that some other countries were producing twice the proportion of vocationally qualified workers as Britain. Recent training initiatives like the Youth Training Scheme have been much less effective than hoped and employer attitudes have remained complacent. This situation has led one commentator, not untypically, to conclude that "any sizeable change in the average quality of the British labour force is going to be slow to materialise" (Crafts, British Economic Growth Before and After 1979: a Review of the Evidence, CEPR Discussion Paper no 292, 1989, p 32).

A comparison between Britain and Japan, shown in table 7.10, graphically illustrates the former's inadequacy in this respect.

TABLE 7.9

Ten fastest-growing occupational categories, ranked by growth

	% growth 87-95	size rank
Literary, Artistic and Sport	3.34 joint 9	
Health, Welfare	2.55 3	
Engineers, Scientists	2.40 5	
Other Professions	2.27	1
(incl. legal, bus, programmers)		
Construction Craft	2.00	7
Supervisors	1.72	joint 9
Technicians, Draftsmen	1.52	—
Education	1.49	8
Engineering, Repairs	1.39	—
(watches, radio, TV, plumbing etc)		
Managers and Administrators	1.33	joint 9

Source: Review of the Economy and Employment: Occupational Update, 1988, University of Warwick Institute for Employment Research)



The importance of qualifications was emphasised by the authors of a series of in-depth comparative studies of British and German metalworking and furniture companies. In the studies, which involved matched comparisons, similar qualification differences were found in both sectors between the two countries.

"The typical German and typical British firm that we visited were visibly of different calibre. Both had access on international markets to the same selection of modern machinery; but the qualifications of those employed were entirely different. Nine tenths of all German employees had vocational qualifications based on a three- year apprenticeship type course followed by qualifying examinations; in Britain only one tenth came near to being in that category. The pressing question is whether the calibre of Britain's manufacturing workforce can be raised sufficiently rapidly to prevent further contractions of our manufacturing workforce as a whole." (National Institute Economic Review, November 1987)

The qualifications held by the general British population between the ages of 25 and 59 are shown in table 7.11. As can be seen, only a quarter of the women and half of the men in this age-group are educated to A-level or apprenticeship level or above, and over a half of the women and a third of the men have not achieved as much as CSE grades 2-5. This does not bode well for meeting the skills shortages entirely from the indigenous population.

TABLE 7.10

Qualifications per worker in Japan relative to Britain

	Craft level	BTEC
Mechanical	2	3
Electrical and Electronic	2	3
Business Studies	-	6

Source: National Economic Review, February 1987, p 50)

TABLE 7.11

Qualifications of the population aged between 25 and 59: by sex, 1987

Great Britain, Percentages and thousands

	Males aged					Females aged				
	25-29	30-39	40-49	50-59	All	25-29	30-39	40-49	50-59	All
Percentage of the population with a qualification										
At degree level or equivalent	13	15	12	10	13	9	8	5	3	6
At least higher education below degree level	18	20	17	14	17	17	17	14	10	14
At least GCE 'A' level or equivalent or apprenticeship	55	56	50	42	51	32	29	22	17	25
At least GCE 'O' level or equivalent	69	66	58	48	60	61	50	38	25	42
At least CSE grades 2-5	77	68	58	48	62	72	54	38	26	46
Any qualification	80	74	65	56	68	75	61	48	35	54
TOTAL = 100%										
(thousands)	2,113	3,769	3,395	2,886	12,163	2,087	3,759	3,381	2,959	12,186

Source: Labour Force Survey, Department of Employment, 1987)



In general, men earn more than women, and non-manual workers more than manual ones, producing a hierarchy with manual women at the bottom, generally earning less than half the average hourly for non-manual men in their industry. If differences between industries are also taken account of, the disparities become greater still. For instance a non-manual man in the finance industries earns on average more than three times the hourly wage of a manual woman worker in the clothing or catering industries. In many cases, the hourly earnings of part-time workers are even lower than their full-time colleagues. It is of interest to note that in some cases, notably the textiles, clothing and catering industries, the lowest-paying industries are also those in which a high proportion of Hongkong workers or UK-resident Chinese workers are employed.

This is consistent with the general relative position of non-white immigrant workers in the British earnings league. A survey by the Policy Studies Institute carried out in 1982 found that median earnings for Asian and West Indian men were 15 per cent lower than for white men (compared with 10 per cent in 1974)

Whether Hongkong immigrants are likely to continue such patterns or whether they are more likely to fill some of the higher-paid vacancies in areas of skill shortage is discussed in the next chapter.

Regional Wage Inequality – average earnings for men and women combined by region, April, 1987. (Source: the Poor Decade, Low Pay Unit, January 1988)

As can be seen, there was in 1987 a difference of #56 between the average weekly pay in the East Midlands and that in Greater London.

TABLE 7.13 reveals disparities both by sex and by industry.

TABLE 7.13

AVERAGE hourly pay, excluding the effect of overtime of full-time workers by industry, 1988

Industry	Full-time manual men	Full-time non-man men	Full-time man women	Full-time non-man women
All industries	4.32	7.48	3.06	4.65
All manufacturing	4.52	7.44	3.10	4.28
All services	3.98	7.48	3.01	4.72
Agriculture etc.	3.12	—	—	—
Energy & water	5.74	8.67	—	4.96
Extraction of minerals	4.78	7.86	3.25	4.50
Metal goods	4.52	7.29	3.24	4.13
of which electrical				
Engineering	4.37	7.57	3.21	4.42
Other manufact	4.38	7.49	3.00	4.33
Textiles	3.77	—	2.89	—
Clothing	3.47	—	2.74	—
Construction	4.22	6.83	—	3.96
Distribution, hotels & catering	3.66	5.98	2.78	3.53
Transport & communication	4.35	7.27	3.69	4.56
Finance industries	4.18	9.04	—	5.01
Other services	3.84	7.20	3.01	5.03
of which, professional & scientific	3.48	8.05	3.09	5.38



## CHAPTER 8

## INTEGRATING LABOUR MARKETS

THREE questions arise from the labour market descriptions in the last two chapters. Firstly is the UK labour market skills constrained? Secondly could it be relieved by an influx of Hongkong immigrants balanced so as to represent the existing skills mix? Thirdly, what are the prospects for non-skilled immigrant workers – will they merely swell the ranks of the largely unskilled UK unemployed?

Economists disagree over the extent to which UK growth and employment suffers from a mismatch in the industrial, skills, or location characteristics of job opportunities on the one hand and workers on the other. The evidence here is somewhat mixed, but Wood (1989) has persuasively suggested that mismatch is a strong element with the unemployed having the wrong skills and being located elsewhere than the available jobs. Wood refers to 'a big decline in the relative demand for unskilled labour, which in conjunction with a roughly unchanged degree of labour market rigidity, could . . . have caused a large increase in structural unemployment.' (Wood, A., How much unemployment is structural?, Oxford Bulletin of economics and statistics, 50.1. 1988 pp71-81, p.78).

Parallel with this drop in demand for low-skill jobs there has been a burgeoning of new job opportunities at the higher skill end, often involving a change in job boundaries. This has already been outlined in the previous chapter and need only be summarised here. Table 8.1 shows trends and forecasts for occupational change in the UK:

TABLE 8.1

Change in numbers employed (000s)	1981-87	1987-95 projected
Managers (incl self employed) . . . . .	38	324
Professional & Related . . . . .	1092	1028
Clerical & Secretarial . . . . .	-76	219
Sales & Personal Service . . . . .	653	240
Craft & Skilled . . . . .	-194	258
Operatives & Labourers . . . . .	-860	-353

(Source: Warwick University Institute for Employment Research: Review of the Economy and Employment: Occupational Update 1988)

The main projected growth in employment is concentrated in the professional and related occupations accounting for one million new jobs. This is as much as the other positive employment growth areas put together, while the largely unskilled category of operatives loses a third of a million.

As we showed in the last chapter, the resulting skills shortage, combined with demographic factors, has produced a situation in which the UK economy is skills constrained. The index of manufacturing skills constraint is not currently as high as it was during the 1970s, but it is surprisingly high given current levels of unemployment.

One of the effects of immigration would be for skilled labour constrained firms to have access to a labour force which contained a reasonable proportion of skilled workers. Quite apart from any comparison of the proportions in both populations with various skills there is an immediate possibility of removing skill shortages in many areas on the assumption that employment of the immigrant cohort will remain depressed for a period of time and the requirement for skilled labour will accordingly be lower there. Housing is probably an exception to this.

The possibility of employing a body of workers with higher skill levels than average could bring major gains.

## IS THE IMMIGRANT COHORT ABLE TO MATCH ANY SKILL SHORTAGES?

It is not possible simply to transfer the existing population of Hongkong to the UK and expect the same pattern of production to prevail as before. Many of the reasons for production in Hongkong are specific to the location. Hongkong is a centre for all major sea routes which enhances trade prospects; it has one of the largest container terminals in Asia-Pacific; it provides a base for multinationals Asian operations; it is ideally located for trade with China; and it services over a million tourists annually.

Nevertheless, many of the skills used in production in Hongkong would be relevant in the UK. This is certainly true of manufacturing as the following analysis demonstrates. Table 8.2 gives indicators of skill shortages by industrial sector in the UK. Specifically, it records the percentage of respondents giving skilled labour as one of the most important constraints on output. The figures are given for 1985 and 1989 to show that the skills constraint is not just a cyclical phenomenon.



The five largest sectors with skills shortages appear to be electrical; mechanical engineering; plastics; paper; and textiles. Clothing has emerged as a skills constrained sectors in recent years, possibly because of low relative wage growth and the loss of trained workers in the recession of the early 1980s. By contrast, hosiery and knitwear has become less skills constrained as the industry has become overshadowed by a lack of demand.

Looking now at the distribution of manufacturing employment in Hong Kong in 1988, described in chapter 6, we find the following breakdown for manufacturing employment.

TABLE 8.2

Percentage Skills Shortage by Industry	1985	1989
Industry	12	22
Total	2	1
Food, Drink, Tobacco	3	4
Chemicals	5	5
Metal Manufacture	14	32
Mechanical Engineering	30	55
Electrical and Instruments	30	65
of which electrical industrial	43	72
electronic industrial	12	14
Motor Vehicles etc	13	20
Metal Products	24	25
Textiles	9	23
of which Clothing	39	14
Hosiery and Knitwear	10	27
Paper, printing, publishing	19	21
All Other Manufacturing	23	32
of which plastics		

Source: CBI Industrial Trends Survey, April.



It appears that up to 70 per cent of Hongkong manufacturing output is concentrated in sectors where there are serious skills shortages in the UK.

The median age of these manufacturing workers is about 30 and about eight percent of manufacturing workers have received tertiary or technical college education. This compares with about eight percent of the entire workforce in the UK with a first degree. But we should remember that we are not comparing like with like in these figures and that the percentage of UK workers with a first degree will be lower in the sectors which characterise Hongkong manufacturing. Of course many skills shortages in industry are not industry-specific. Business studies and computer skills which are increasingly in demand may be heavily distributed in the Financial and Banking sector of the Hongkong workforce and many of these could be attracted to manufacturing in the event of a lack of demand for extra such employment in the UK.

It is of interest to speculate what would happen to total employment demand in the UK if the skills constraints recounted above were to be greatly relaxed. There is no exact procedure for doing this but if we assume that output in the four major skills constrained sectors – electronics, mechanical engineering, paper and textiles were to increase by five percent as a result of a relaxation of skills constraints, it would lead to jobs being created over a wider range of industries as suppliers to these industries find their own market demands rising.

Skills are not the only source of mismatch. The regional dimension is also important as was made clear in the last chapter. Indices of structural change for manufacturing across regions show a pronounced rise in the 1980s whether based on employment or floorspace statistics. Specifically, the variance of net proportional changes in manufacturing employment across regions rose strongly in the period and has stayed high. Thus the strong regionally specific effects of the 1980 recession on manufacturing employment have only been partially reversed. It is not immediately clear whether increased immigration would improve this situation greatly – it depends on the dynamics of supply and demand. However to the extent that the entrepreneurial skills of the immigrant cohort were regionally dispersed, the prospects for reviving manufacturing production in the regions would be enhanced. Furthermore it is in the nature of immigration that it brings with it demands for basic provisions such as construction, food and services

### THE OCCUPATIONAL STRUCTURE IN HONGKONG

Information on this is given in Table 8.4, with the UK breakdown given for comparison, though the exact definitions of the broad groups may not be strictly comparable. The numbers in brackets after the Hong Kong breakdown are the percentage of workers in that occupational group with schooling at least to matriculation level and upper secondary level respectively.

TABLE 8.3

#### Distribution of Manufacturing Employment in Hongkong 1988

Electrical .....	14
of which Electronics .....	10
Textiles .....	14
of which knitwear .....	5
Clothing .....	29
Plastics .....	9
Other .....	33

Source: Hong Kong Government Information Service 'Hong Kong, 1989'

Information on this is given in Table 8.4, with the UK breakdown given for comparison, though the exact definitions of the broad groups may not be strictly comparable. The numbers in brackets after the Hongkong breakdown are the percentage of workers in that occupational group with schooling at least to matriculation level and upper secondary level respectively.



It is clear that there is a much smaller proportion in professional occupations and a larger proportion of sales, service and production workers. However this is partly explainable by the smaller public sector and larger production sector in Hongkong.

The composition of the immigrant cohort may not match exactly the fastest growing areas where skills are likely to emerge. But a significant proportion of the Hongkong inflow would immediately find jobs in areas of skill shortage. Twenty five percent of those in service occupations; 25 per cent of those in finance and business services and ten percent of those in construction work have technical or tertiary education, with an average not far below ten percent for most of the remaining sectors. The figures compare well with Britain where, in 1987, 62 per cent of men and 46 per cent of women in the 25-29 age group had achieved some CSE passes while 60 per cent of men and 42 per cent of women had reached the equivalent of O level.

The discussion of skills and qualifications has brought out two points. Firstly, there is some matching possible between existing skill shortages in the UK and the employment patterns current in Hongkong. Secondly, it is clear that there is concern about the general skills and qualification levels in the UK. In this respect, the high proportion of well educated workers in some sectors of the Hongkong workforce would be an obvious plus.

#### PROSPECTS FOR THOSE OTHER THAN THE HIGHLY SKILLED

The majority of the immigrant cohort is, however, unlikely to be highly skilled and some may still have language difficulties. The question arises as to whether this will lead to excessive competition for already low paid jobs, with consequent regressive implications for existing low paid workers who would be asked in effect to shoulder the cost of allowing the immigrants access to the UK?

The assumptions used throughout this report are intended to reflect policy options that avoid disruption. In particular the regional distribution of the immigrant cohort might be directed via housing provision/subsidies towards particular geographical locations where manufacturing production – with attendant productivity growth – is possible. Secondly, we have assumed in the section on TRADE that every effort is made to allow existing Hongkong production to be transferred in as full a state as possible to the UK with the intention of serving export markets.

Thirdly the analysis of housing allows for the option of a substantial amount of co-operative effort using immigrant labour to produce the required housing stock. In this way, the downward pressure on unskilled wage rates should be minimised, though many of the existing vacancies in particular regions may be filled by immigrants. In London, for instance, 48 eight per cent of current vacancies are in unskilled manual jobs or in retail/catering. (The London Labour market, Dept. Of Employment 1988).

Some economists argue that there is a link between unskilled job opportunities and skills shortages in that if the latter were relieved, more of the existing unskilled jobs would fall vacant. Studies at Warwick University have shown that skills shortages can cause managers to decide against a job enrichment approach for fear of running up against a skills constraint. This in turn inhibits training and potentially able people then end up doing simple unskilled work, displacing less able people in low-skill jobs. The end result is a low-skill economy with a large pool of low-skill unemployed. (Warwick University Institute for Employment Research: Review of the Economy and Employment 1987). If this is correct, then the relief of skills shortages made possible by immigration could in turn release other jobs which could be filled by both the indigenous and immigrant unskilled workers.

TABLE 8.4

	%	HK	%	UK
Professional, technical and related .....	9	(70)	(97)	22
Administrative and managerial .....	3	(46)	(80)	13*
Clerical and Related .....	15	(24)	(84)	14
Sales Workers .....	12	( 9)	(33)	—
Service Workers .....	16	( 4)	(19)	19
Production and related .....	43	( 3)	(17)	32

\* including small business

Sources: 1986 Hongkong Census and Warwick Institute for Employment Research data, 1988



## CHAPTER 9

### THE TOTAL IMPACT

### CONSEQUENCES FOR THE UK ECONOMY

THIS chapter puts together all the factors discussed so far assesses their impact on the economy as a whole. The implications for trade and shifting patterns of consumption are discussed as well as the implications for the main macro-economic variables-growth, jobs, the trade balance and price levels.

Quantified results are given to show the impact of the worst case, when the public purse has to finance the largest housing boom the UK has seen. These results are produced with the help of ready reckoners derived from major models of the UK economy. Appendix 1 gives technical details.

Perceptions of the impact of migration depend a great deal on the current state of the economy. Three years ago it would probably have been argued that the major problem of the economy was lack of jobs. Now it would be seen in terms of lack of available skills, industrial capacity and affordable housing. It is clear that the arrival of a Hongkong population would deal with some of the problems of the UK economy and exacerbate others.

We are considering a policy which will have continuing consequences over a period of at least 10 years. During that time the perception of what are the problems of the economy is likely to change. In addition, even if there is no formal change of ruling political party it is likely that the style of response of Chancellors if the Exchequers will be at least as variable as it has been during the last ten years.

#### TRADE

The starting point for any discussion of Hongkong trade has to be a recognition of its considerable economic success in the past, a success which has been based on trade and on Hongkong's ability to hold its own against the other East Asian Newly Industrialising countries – Korea, Singapore and Taiwan. In fact Hongkong's exports make up 10 per cent of the entire total of manufacturing exports from all developing countries. This has been achieved by a rapid productivity growth of approximately 50 per cent a decade.

It is not easy to estimate how much of Hongkong's existing trade could be inherited by an immigrant cohort in the UK. For modelling purposes, we have chosen to present exports as growing in proportion to the number of immigrants employed, but in order to do so it has been necessary to arrive at an estimate of exports per employee. Alternative cases show the impact of losing these exports to third parties.

The approach we have adopted has been to take any import substitution arising out of the transfer of production to the UK as, in effect, a form of net exports. We would expect such substitution to be particularly important in the case of clothing, textiles, electrical and electronic goods, toys, cameras and watches. Import substitution could occur not only in final demand categories like consumer goods but also in raw materials.

What proportion of existing Hongkong exports would be transferred? We have confined our attention to the manufacturing sector. We have also ignored the large quantity of re-exports currently taking place from Hongkong, because these depend heavily on geographical location.

Looking at the destination of these exports, we find that the United States is Hongkong's largest customer, taking a third of all exports. This is followed by the EC, which takes 22 per cent (with the UK accounting for 7 per cent), then China, with 17 per cent. Canada and Japan together account for a further eight per cent.

An examination of the goods exported reveals a predominance of clothing, which accounts for over 30 per cent of all exports; textiles, which make up a further 7 per cent; and engineering products, which account for another third. Clothing makes up an even higher proportion – approximately half – of exports to Britain, Germany and the United States.

An assessment of the prospects for clothing exports is clearly critical to any estimation of the possibilities of relocating production in the UK.

Fortunately, Hongkong imports are such that they could nearly all be supplied from within the EC after immigration. Raw materials might be an exception in that unfinished cloth would probably be imported from low-income countries, an issue which is explored below.

The extent to which old markets can be retained, or new ones gained depends largely on cost considerations. We are not dealing in the main with highly differentiated export items and can expect the markets to be characterised by elastic demand. In other words we must assume that they are price sensitive



## COULD THE UK GAIN HONGKONG'S EXPORT TRADE?

If the world were characterised by free trade, the approach to be adopted would be straightforward in principle. Estimates of any change in costs – arising for instance from shipping, tariffs, unit wage or materials costs – could be combined with estimates of demand elasticities so as to arrive at a resultant change in net exports.

This method is useful as long as we do not lose sight of real world complications. One problem is the paucity of data in the detail required. The question of price elasticity is particularly difficult. It has been inferred that price elasticity for Hongkong exports is infinite i.e. a rise in prices as costs increased would lose them all their exports as competitors scoop the market, and the UK would not be able to gain any of these exports unless it could reproduce Hongkong's cost structure.

Others doubt that this is so. Partly these doubts arise "... because the newly emerging exports of engineering products are differentiated commodities where price affects product choice". (Adjusting to Success, B. Balassa and J. Williamson, Institute for International Economics, Washington 1986). Presumably this objection is less valid in the case of clothing, though even here some products may compete on style.

The reason given by Balassa for doubting infinite elasticity in the case of clothing is that clothing exports are MFA quota limited. This does not seem an objection in the present context. It seems reasonable, however, to follow Balassa in assuming a price elasticity for exports not much higher than unity. Estimates for Greece have suggested this figure. Estimates for Korea which has a similar emphasis on clothing exports also bears this out (Balassa, Table B1).

The implication of a unit price elasticity of export demand is that a one per cent increase in unit costs, feeding into prices, will cause a 1% fall in export volume. In this study, we see no reason to assume that unit labour costs will be vastly different from their present HK level.

Although Hongkong manufacturing wages are low in relation to the UK, productivity is also lower. The question of productivity obviously depends on the quality of machines and the age structure of the immigrant cohort. Nevertheless wages are only one part of labour costs and we can expect non-wage labour costs to be higher in the UK. Taking an index of hourly labour costs in the clothing industry with the USA=100, we find Hongkong at 21 and the UK at 77 (Source: Werner International). We do not expect this gap to be closed given productivity differences but some increase is inevitable if only to cover non wage labour costs.

At first sight, it does seem likely that shipping costs and raw material costs will rise. However, shipping costs per unit depends on the destination of trade and there may well be a substantial re-orientation of exports away from the US and towards Europe. This has in any case been happening in recent years, with volume indices of exports to the US constant and strongly rising for Europe. This leaves the question of raw material costs which will be higher partly because of higher transport costs (much is presently imported into HK from mainland China) and partly because the import of textiles in particular from low cost sources is quota limited. However, it must be said that restrictions on textiles are much less severe than on clothing and in any case there is no reason why increased production of clothing would not allow for the quotas to be increased.

Raw materials costs will differ commodity from commodity. We reproduce below information on the cost breakdown on cotton shirts to show the importance of raw material costs on the total.

TABLE 9.1

Cotton shirts DM per piece 1985

	UK	HK
Raw materials	9.34	7.78
Labour	3.21	0.80
Total Mfg costs	13.97	9.58
Total cost	15.62	10.90

Source: Economist Intelligence Unit Report 1108, World Textile Trade and Protection Trends.



It seems possible that raw material prices would rise somewhat whether due to MFA restrictions or to increased shipping costs. At present low cost countries supply over 80 per cent of the UK's grey fabric imports. (Z.A. Silberston *The Multifibre arrangement and the UK economy* DTI 1984). It should be possible to find sources of raw materials in non-MFA constrained countries such as Turkey so that only slight rises in raw materials costs should occur. In the case of engineering goods, there should be even less change in raw materials cost.

The above discussion suggests that unit costs need not rise much when production is transferred from Hongkong to the UK. Some rise in unit labour costs seems likely however. Accordingly a correction factor of 0.75 to the value of exports per employed worker can be presumed. This is a composite of a correction ratio of non-clothing products where all unit costs except labour are assumed to be similar and a correction factor for clothing which takes into account the higher elasticity and higher material costs for this commodity group in the new situation. It is a simple matter to feed this assumption into the model.

However it is probably unwise to assume a static framework here. Given the fast rise in the volume of Hongkong exports – nine per cent in 1988 and over 20 per cent before that – it seems best to build in some assumption about the growth of exports per head. We have not pursued this line and so our estimates could understate the advantages of export industries relocating in the UK.

Effects on the domestic UK economy – particularly clothing – will occur even if the Hongkong unit cost index rises as assumed above. This is because the total exports of Hongkong clothing is of the same order of magnitude as total UK clothing production. Effectively the location of Hongkong production in the UK abolishes a substantial part of the MFA clothing quotas, and this in turn will lead to a fall in prices. Silberston *op.cit.* argued that the abolition of the entire MFA might lead to a fall in prices by about five to 10 per cent.

It would not drive prices down to cost because developing country exports were reasonably small in relation to total production in the developed countries. In our case, we are arguing that unit costs of Hongkong production in the UK would be somewhat lower than indigenous production costs.

The UK has already moved a long way towards dependence on low cost clothing by way of imports. Indeed the Cecchini Report on the Clothing Industry referred to a "marked switch of British consumers towards lower price articles" as opposed to other Europeans (The costs of Non europe, EEC COMmission Vol 14 1988). This being the case there is clearly scope for import substitution if immigration from Hongkong occurs.

## CHANGES IN CONSUMPTION PATTERNS

A shift in the pattern of spending as a result of an influx of immigrants would have structural implications for the economy, shifting the pattern of output and trade. Consumption patterns of households depend on many factors. Preference is an obvious determinant and the pattern of preferences is undoubtedly influenced by culture and ethnicity. Income is perhaps a stronger determinant in that cross-section studies show regular tendencies for income shares to vary by stage of income achieved. Relative prices are another important factor and these can be influenced by supply considerations as well as by patterns of indirect taxation. Finally, the composition of households will affect the pattern of expenditure.

The immigrant cohort will probably not be rich. On average we could expect an income level close to the poorest category recorded in the national income accounts for the UK. In the 1986 Family Expenditure Survey this corresponds to the range 150-175 per week for household expenditure. At current exchange rates the mean expenditure per week in Hongkong in 1985 was approximately 150. The percentage breakdown of this UK expenditure by commodity is shown in Table 9.1, together with two breakdowns for Hongkong in 1985. The first Hongkong pattern shows the mean household expenditure, while the second shows the expenditure of the modal household expenditure group.



TABLE 9.2

	UK	HK (mean)	HK (modal)	UK (adjust)
Housing	18.1	20.6	14.9	18.1
Fuel etc	6.3	2.8	3.9	5.0
Food	20.7	38.3	49.5	25.0
Alcohol & tobacco	7.5	1.8	3.1	7.5
Clothing & Footwear	7.2	7.4	4.7	7.2
Durables, others	6.9	3.3	2.3	6.9
Miscellaneous	8.1	6.9	6.2	10.1
Transport & Vehicles	14.3	7.2	6.6	11.3
Services	11.0	11.5	8.8	9.0

Source: UK Family Expenditure Survey 1986 and Hongkong Household Expenditure Survey 1985.

There are considerable differences between the mean and modal patterns for Hongkong, suggesting that information on the exact type and composition of household of the immigrant cohort would be needed to form an accurate picture of likely expenditure patterns. Some idea of the pattern can, however be gained by making intelligent adjustments to the mean pattern. This pattern is not too dissimilar from that of the UK group shown. In the case of housing, the UK figure shown is the net proportion spent on housing. This excludes a considerable component of subsidy. The differences in alcohol and tobacco may largely represent revenue taxes. The differences on transport and vehicles and fuel will partly reflect differing geographies and climate. (The number of licensed private cars in Hongkong is only 2.5 per hundred people) The lower proportion of Hongkong expenditure on durables may partly be due to local production of household goods and electronic appliances. Hongkong consumption of clothing and footwear seems high, following the same reasoning. A major difference between the two countries is the proportion allocated to food.

This, along with the clothing percentage, may partly be due to the age distribution and family size, in particular the proportion aged under 15. The median size of household in Hongkong is four people, in the UK it is half this size with 0.75 children and 1.49 other dependants. Household composition is only one element in explaining the differing expenditure patterns on food. Incomes and prices also have to be taken into account. The price of food in Hongkong reflects the virtual absence of an agricultural sector and the necessity to import food. Even professional families spend over 35 per cent on food.

The immigrant cohort is likely to trade substantially within itself at least at the outset. How this will affect the final pattern depends largely on the various price elasticities of demand which are not known with any precision. The UK share of spending on food would probably increase, while that for transport and vehicles should be reduced. The latter correction does depend on the geographical location of the cohort and the home-work distance of those employed. It will also reflect the dependency ratio.

However it is hardly likely that a population unused to owning cars will quickly change its habits in this respect. However, these corrections in themselves fail to deal with the specific immigrant nature of the cohort. We are dealing with people who are setting up home and who will have had difficulty in transferring all possessions to the UK. Accordingly it seems appropriate to raise substantially the proportion spent on durables and other goods (which includes carpets, furnishings etc). The UK proportion spend on durables is already twice the Hongkong figure and it seems unwise to alter this.

Our final modification is to raise the percentage spent on other goods by two percentage points, compensating it by a similar fall in services on the assumption of a greater input of unpaid family labour and greater input of non-marketed public services in the UK. This gives the adjusted pattern as shown in the final column of the table.

One question that can be directly addressed using this table is the likely impact on the balance of payments from the increased consumption requirements. The issue of trade is dealt with in greater detail in a separate section but we can note here that the major categories where the immigrant cohort's consumption needs are likely to be relatively high are areas of low import intensity. This applies in particular to food. Expenditure is relatively low in vehicles, fuel and services; here the impact on the balance of payments is favourable for the first two categories, though services has a very low import content.

Overall, then it would appear unlikely that the balance of payments situation would deteriorate worse as long as exports per head of the immigrant cohort could at least match the exports per head of similar income groups in the UK.



Table 9.2 is also of some interest in relation to the likely outcome on employment. Many of the categories with the highest proportionate consumption for the immigrant cohort consist of commodities that can be produced efficiently on a small scale in certain circumstances. Food, clothing and services comes to about 40 per cent of the total spend and much of this could be produced in a labour intensive way within the immigrant cohort itself. This is not to suggest that this is the most desirable or most likely scenario over an extended time period. But given the initial difficulty in labour absorption it is not unlikely that something of this sort will emerge in the short run.

### OUTPUT OF THE SIMULATION

The results of the simulations are presented in terms of the impact on output, the price level, the Public Sector Borrowing Requirement (PSBR), employment and real pay.

#### OUTPUT

THE output is the whole production of the formal measured economy – not manufacturing output or the private sector alone. Fortunately, although GDP is a very important analytical indicator it is rarely of direct significance in evaluation. It is valued for the effects it has on jobs or living standards rather.

#### PRICES

Consumer prices refer to the level of the deflator for personal consumption. The numbers given refer to the LEVEL of prices and not the rate of change.

#### PUBLIC BORROWING

The measure given is the Public Sector Borrowing Requirement (PSBR). In most of the simulations we are dealing with, this gives a reasonably good indication of the impact on government finances.

#### BALANCE OF PAYMENTS

In looking at the balance of payments figures it is important to remember that what we are looking is the current account of the balance of payments. Against any decline in the balance must be set the capital inflows of funds associated with the immigration itself.

#### EMPLOYMENT AND UNEMPLOYMENT

The entitlement to claim of immigrants and the extent to which they translate their tendency to hold more than one job in Hongkong, make the impact on measured unemployment dubious. Although the UK still has large scale unemployment (and hence unused labour resources), the publicly quoted figures for unemployment is a stock variable. There are very large flows on and off the register so that apart from the long term unemployed, unemployment is less a measure of individual welfare in the 1980s UK than it is of lost output. For that reason the simulation results showing jobs gained or lost is of more value.

#### PAY

The impact on real pay is a deduced ready reckoner based on the change in the level of the consumer price index already discussed and average pay. As a gross pre-tax measure it omits the impact of changes in tax rates. Nonetheless, along with jobs, it is probably one of the most important indicators of the impact on the existing UK population.

The simulation reported here shows the worst case based on the extreme case assumption that all 3.2 million British Hongkong subjects arrive over the next ten. The issue of whether they can be easily scaled down in the case of smaller numbers of immigrants is not simple. For the cases assuming increased exports through industries coming to the UK are likely to have minimum scale effects.

One particular aspect not fully dealt with by the macro-economic models is the distributional impact on the of the UK housing market. For immigrants with no wealth, their accommodation will be in rental accommodation – either temporary or permanent public sector housing, or private rented housing. For those with some wealth, they may well buy owner occupied housing. This will push up prices, so enhancing the wealth of existing owner occupiers and delaying the entry into the owner occupied sector of others. In some cases the increased wealth of the existing owner occupiers could leak into consumer spending.



## THE WORST CASE

This simulation includes the impact of higher public spending detailed above and the complete provision of housing through the public purse. The results are given in Table 9.3. It also shows the most extreme assumption about housing – that all housing is provided by the public sector with a bias towards provision in the South East to reflect the distribution of the existing Hongkong immigrant population.

## THE RESULT

- A spectacular rate of job creation activity rising, largely through the housing boom;
- Higher levels of GDP;
- Mounting trade deficits, these deficits can be compared with current deficits of around £15 billion;
- Higher public deficits, these could be met from a rise in basic tax rates of about three pence in the pound;
- Higher rate of inflation, slowing by the end of the period.

TABLE 9.3

Housing all public sector with worst regional balance

GDP Pay	Prices	PSBR	Bal pay	Jobs	Real
2.53	.99	4813.17	-4729.02	507.6 3	.73
2.73	2.3	4200.8	-3959.81	705.34	.17
3.18	3.55	3959.47	-4669.05	912.62	.46
3.61	4.97	3268.42	-4810.93	1150.88	.15
4.03	6	3034.63	-5258.66	1406.73	-.22
4.34	6.53	3005.68	-5302.56	1508.28	-.17
4.7	7.1	3041.01	-5463.94	1621.23	-.12
4.83	7.64	2617.34	-5198.04	1700.22	-.18
4.97	8.06	2280.65	-5041.48	1762.93	-.17
5.08	8.37	1978.97	-4836.81	1808.44	-.18



## CHAPTER 10

## CONCLUSIONS

THIS study has set out many of the issues which would arise from a decision in principle to allow mass immigration from Hongkong. This chapter attempts to draw these issues together and put them into a coherent framework.

The aim of the study is to illuminate the debates taking place, and to provide them with the information and analysis needed for rational deliberation. It is deliberately not partisan and attempts to confine itself to technical issues. These have, however, brought forward a number of points which are of central relevance. These relate firstly to the costs and feasibility of a mass movement of British passport-holders from Hongkong, and secondly to more concrete issues which involve decisions by government. Major features of these costs and benefits are:

## BENEFITS

- An improvement in the Balance of Payments from the transfer of Hongkong's export orientated industries.
- A boost to growth.
- An increase in the labour force as UK demographic trends turn downwards.
- Depending on an active regional strategy for settling new immigrants: the economic regeneration of areas that can otherwise expect to suffer declining populations.
- A fall in the dependency ratio – in other words an increase in the population of working age relative to the young and old.
- Lower subsidies to public transport as utilisation increases.

## COSTS

- More competition for unskilled jobs.
- Unless the immigration is successfully planned both in terms of timing and location of settlement: increased congestion in the South-East, higher rents in the private sector and housing problems for low income households.
- Higher public expenditure on local authority or housing association, the health service and education and in consequence.
- Higher taxes or higher public sector borrowing.

On costs, it has been shown that such a migration is essentially manageable for the British Economy, and in certain circumstances the outcome might be favourable to Britain, in particular by increasing economic activity and improving trade performance. The feasibility of such a large migration therefore seems to be shown from an economic point of view. From the point of view of management and logistical issues, there are clearly many problems which arise. These are in such diverse areas as housing policy; education, especially language teaching; health; regional policy; inter-community relations; transport. The issue of whether these could be managed by *laissez faire* policies or require government action remains a question for discussion.

These policy issues are in our view mainly aspects of one fundamental issue: in the event of a major influx, to what extent could the UK government allow the individual decisions of Hongkong migrants to determine the pattern of migration and to what extent should the UK government seek to influence and override these decisions in the furtherance of its policy objectives.

The first arena in which this issue arises is an international one. The assumption implicit in our analyses – that the entire flow of migrants from Hongkong comes to the UK – is in practice unlikely. Whilst the possibility of participation in the resettlement programme by the Commonwealth and the EC is to be welcomed, it brings with it some dangers for the UK. Other participating countries may seek to cream off the wealthy, the skilled, the fluent English speakers and those of working age without dependents. The UK would then be left with the poor, the unskilled, those without English, the very young, the old and the sick.

\* If this were to occur then many of the benefits to the UK from the immigration that we have identified would be abated or nullified. Policy makers would therefore need to address, in our view, the international dimension of an exodus from Hongkong and seek to reach international agreement on a system of quotas to regulate the destination of Hongkong migrants.



Second, policy makers have to decide whether or not to intervene in the timing of the migration to the UK. Throughout our analyses we have assumed an even flow of migrants spread over seven years. If the migration decision is left to individuals this pattern is most unlikely to arise. Instead, there is a danger of a very heavy concentration of migration taking place in panic conditions in the period immediately before mid-1997. This could lead to insurmountable difficulties in the UK. Lesser, but still potentially serious, difficulties could arise both in the UK and Hongkong from an uneven flow of occupational groups such as doctors, nurses and teachers.

Third, policy makers have to decide whether or not to intervene in the location in which the arrivals from Hongkong settle. If the decision on where to settle in the UK is left up to individual migrants it is possible, and in our view likely, that considerable numbers would seek to settle in the South East, especially in Greater London, and in lesser numbers in the North West. This pattern of settlement could lead to very serious problems in areas such as housing and transport. Moreover, the benefits which we identified in Chapter 9 would be jeopardised or sacrificed.

Fourth, policy makers have to make a choice between free market and state provision solutions to the problem of providing housing and other infrastructure for the new arrivals. Here, the decision made by policy makers has implications not only for the standard and quality of the accommodation and other infrastructure made available to the new arrivals but also for the distribution of the costs and benefits of the migration across different housing groups.

This brings us to the final question policy makers must face. Previous chapters have indicated that mass migration from Hongkong brings costs and benefits. The distribution of these costs and benefits is likely to be highly uneven however. Many of the costs of mass migration are likely to be suffered by people who currently occupy marginal positions in the UK labour markets – the unskilled, the old, the young, women and the existing ethnic minorities – and a marginal position in the UK housing market in the private rented sector. Policy makers must decide whether the distributional implications should be accepted or whether measures should be taken to offset them.



## APPENDIX 1

### USING MACRO-ECONOMIC MODELS

IN the above chapters we have presented analyses of particular aspects of the impact of Hongkong immigration. We have also shown the impact on the UK economy at an aggregate level – the macro-economy.

The results are produced with the assistance of a computer model of the UK macro-economy. We have taken the "ready reckoners" which describe the major properties of an economic model and linked them together to give consistent solutions. This provides a comprehensive accounting and economic framework, imposing consistency on the separate analyses while providing a framework in which the separate analyses can be brought together to draw overall conclusions.

The need to use a tool of this kind arises from the interdependence of the various parts of the economy and the feedbacks between different parts of the economy. Thus increasing housing investment affects economic activity levels, employment, government's tax income, demand and supply for products to accommodate all the extra spending and hence the balance of foreign trade. The way in which all these effects work together depends on the size of effects in individual linkages in the economy and how they are all fitted together. In general first round effects are a poor approximation to the behaviour of the whole system, and with a number of different exogenous forces operating, the outcomes may be very hard to track – hence the need for a model.

There are, however, dangers in using models for purposes for which they are not designed, for instance to support particular election promises which do not easily fit into the model's categories. We feel, however, that the problems of increasing labour supply, public spending needs and housing investment etc created by a population influx are well caught by standard models.

It is important however to remember that macro-economic analysis is not exhaustive. It is confined in scope to the measured economy both in its exclusion of the informal economy (whether in households or in legal or illegal commercial activities) which do not fall within statisticians measure of Gross National Product. It also excludes those changes in environmental and social conditions which are not represented by market transactions.

### CHOOSING A MACRO-ECONOMIC MODEL

The selection of an economic model presents a slight paradox, when it comes to looking at the economic policies likely to be used to respond to problems or possibilities which might arise from Hongkong immigration. It would be wrong to describe any of the major macro-economic models as Keynesian in the sense that most macro-economic models were ten years ago.

Nonetheless the National Institute of Economic and Social Research – although it incorporates many features which are associated with modern monetarism has properties which least resemble those which the present Government would anticipate.

Nonetheless in our assessment of likely policy reaction we have chosen those policies which are most likely to be pursued by the present Government. It does not seem sensible for us to make recommendation as to the whole course of economic policy during the course of analysing the impact of Hongkong immigration. On the other hand the National Institute Model most closely reflects the views we hold on the way the economy operates. The danger is that the policy reactions we identify might not be effective in dealing with the problems to which the immigration gives rise.

### CHANGE IN THE LABOUR SUPPLY

Traditional neoclassical analysis suggests that the impact of immigration would be to force down wages and so increase the demand for labour. In the long run the pre-existing full employment which is the natural outcome of an economy operating according to neo-classical theory will be re-established with greater employment and greater production.

Andrews *et al* (Models of the UK Economy and the Real Wage- Employment Debate Andrews, Bell, Fisher, Wallis and Whitley. National Institute Economic Review May 1985) show that none of the economic models of the UK economy follow this pattern. At the extreme, the Liverpool model shows a reaction of one per cent in employment following an increase of one per cent in the population of working age. But this is associated with no increase in output. The result is therefore a large fall in productivity in spite of showing the smallest eventual fall in real wages. In effect the absorption of the additional labour is achieved almost instantaneously by assumption. The greatest effect is shown in the London Business school model.



This shows a 0.45 per cent response to a one per cent rise in the labour supply. Like Liverpool it is accompanied by almost no change in output and hence a sharp fall in productivity. At the other extreme the Treasury model shows almost no change in employment and a substantial increase in output.

In fact the analysis of an increase in population is a good illustration of the Keynesian problem of effective demand. Labour arriving with no effective demand will not itself generate sufficient demand to ensure its own employment and will therefore not have enough effective demand.

The analysis can be looked at in terms of the three ways of constructing of national income – expenditure, income and output. The arrival of extra people will put greater demand on the economy. Some of this will take the form of additional consumer purchasing power and some of additional public spending. Public spending will be required both on current spending for more teachers and nurses as well as more investment in schools, hospitals and accommodation. In so far as Hongkong immigrants bring with them their marketing contacts overseas, there will be a greater demand for exports. Similarly there will be considerable replacement of imports from Hongkong by UK production.

When looking at the expenditure analysis it is possible to look at the UK after immigration as one unit. For the income analysis it is probably easier to look separately at the immigrants and the rest of the UK. The immigrants will have three sources of income based on work in the UK, social security in the UK and wealth or income entitlement brought from Hongkong.

The income not going to the immigrants community will go to the remaining population of the UK. This will largely take the form of additional net government revenue – the excess of taxation over public spending. In order to make an assessment on the local UK population it will be necessary in this account to treat as income the use of public services. Another crucial factor will be the labour market. The impact of immigration might be either to lower or raise the average pay level and the level of employment of the existing UK population.

The effect on the balance of payments will be threefold. The increased exports and reduced imports from transferring production from Hongkong to the UK will improve the balance. The imports induced by higher investment and consumption will cause it to deteriorate. A third factor will be income and wealth flows associated with immigration. In economies with large immigrant populations – like Germany or Switzerland – remissions are an important factor. The wealth immigrants bring with them will be a credit on the capital account of the balance of payments, though it may be very hard to detect in the statistics. The impact of these factors will be felt in terms of the impact of the changing balance of payments on the level of the pound.

The output assessment will look at the industries in which output is likely to be increased. This will be translated into increased employment in terms of skill and location. This can be compared with skill patterns of the immigrants in order to look at the net impact of employment of the existing UK population.

With some industries, the arrival of Hong Kong industries will be like removing tariff barriers against them. The impact on the existing UK clothing industry could be very like the ending of the multi-fibre arrangement. Ensuring co-operation between indigenous and immigrant industry will have a major impact.

There are therefore three sources of effective demand – income in the form of pay and social security, imported wealth and public provision of social infrastructure. Any imported wealth will to a large extent be converted from foreign currency into sterling – albeit form a currency which could well be substantially devalued by a large and rapid emigration from Hongkong.

Notwithstanding this effect, the result of such conversion on any scale will be to put upward pressure on sterling which may result either in an appreciation of the pound or downward pressure on interest rates depending on the reaction of the authorities. In addition any imported wealth will put upward pressure on the price of assets in the UK – particularly housing.

In addition to these demand side effects there will be supply side effects. The fact that Hongkong is a major trading nation – with both strong trading links with China, Japan and the US and with a very well established trading position in the clothing and textile industry. In addition, the Hongkong community will preserve some of the links within the new communities in the UK. The result will be that consumer spending by immigrants might well have a lower import content than similar expenditure by present UK residents. This effect will be additional to any difference in the import propensity of consumption arising from the different composition of expenditure.





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Your reference

Our reference

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D G Manning Esq  
Cabinet Office  
70 Whitehall  
LONDON, SW1A 2AS



11 August 1989

*Dear David,*

OFFICIAL GROUP ON CONTINGENCY PLANNING FOR HONG KONG: MONITORING NUMBERS

The Group asked at its second meeting on 2 August that the material which we supplied on monitoring, inter alia, should be divided up so as to correspond with the "green", "amber" and "red" phases, as appropriate. The group also concluded that monitoring the numbers leaving Hong Kong and arriving in the United Kingdom would be important, especially in the first ("green") phase, and that it would also be important to monitor the numbers leaving Hong Kong in the "amber" phase. It was decided that the group's paper should make recommendations for refining the monitoring mechanism and estimate the additional cost.

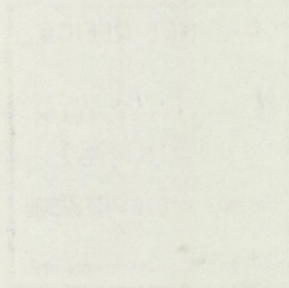
✓ I think the best plan for the paper might be to keep the existing paragraphs (52-63 of MISC 140(89)2) together as a coherent account of the background, but to put them as a self-contained annex to the paper as recast; and to include passages in the main body of the report along the lines of the attached draft (A).

May I also take the opportunity of this letter to emphasise a point which, perhaps rather tiresomely, I made at the first and second meetings? This is that, while in its present form the paper mentions the inevitable uncertainty about the attitude of the Chinese Government towards a mass exodus, and mentions (in paragraphs 31 and 32) the fact that decisions will be needed as to allowing people from Hong Kong to enter, it does not in my view adequately present to Ministers the fact that the decisions which they will have to make on their own attitude are not merely consequential upon an exodus and influx occurring but may be to a large extent a determinant of whether or not they occur. Paragraphs 3-5 set up scenarios in which people might wish to leave but in its present form the paper then immediately presents the problems of evacuation, reception and resettlement as if these required only practical solutions and not also decisions of principle. The group also decided that the paper should mention Carriers' Liability. I think the division of the paper into "green", "amber" and "red" phases offers a good opportunity of addressing these questions in a better logical order, on the basis that the transition

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from "green" to "amber" would, in fact, be founded upon a decision in principle to set aside normal immigration control requirements and procedures and that the "red" phase would be the one in which new policies and procedures would actually be applied.

Would you like to consider putting into the report, as self-contained sections between "scenarios" and "evacuation", something along the lines of the drafts attached at B?

I am copying this to Bronwen Fair, who is standing in for Richard Fries during his absence on leave, and to Alan Paul.

*Yours sincerely,  
Nigel Varney.*

N R VARNEY

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A

MONITORING DEPARTURES FROM HONG KONG AND ARRIVALS IN THE UK

"Green" phase

*Rec* At present (see Annex [ ]), statistics of Hong Kong BDTC's arriving in the UK are collated at monthly intervals for internal use. Since figures of this kind might be one of the key indicators of the onset of an exodus, and a sudden large increase could itself give rise to the need for a decision on whether to set aside normal immigration control requirements, we recommend that the frequency of production of these figures by the Home Office should be increased to weekly intervals, that the figures for each week should be available on the Monday of the following week and that they should include not only admissions for settlement and for other purposes but also refusals of leave to enter. After 1 July 1997 they should also show separately any applications for asylum.

*Resma* The resource implications of this change (scattered between ports and the Home Office) cannot be precisely estimated until it is put into operation. At present, it is considered unlikely that additional staff would be required, but absorbing the work would affect other statistical functions in the Home Office and Immigration Service routines at ports.

'Amber' phase

During this phase, which could be very short, we recommend that arrivals in the UK by Hong Kong BDTC's of any refusals of leave to enter and,

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(after 1 July 1997) of any applications for asylum should be counted and reported on a daily basis. This arrangement would be more resource-intensive than the scheme recommended for the green phase; the manpower requirements and costs would be containable if the exercise were short-lived but more significant (possibly requiring extra posts) if it were protracted. *Assume*

We also recommend that, during this phase, the number of persons leaving Hong Kong (sub-divided into Hong Kong BDTC's, other British nationals, foreign nationals and holders of Hong Kong identity documents) should also be reported on a daily basis, together with such information as may be available (eg from travel tickets) about the destination of the passengers.

'Red' phase

In this phase a comprehensive count on a daily basis of people leaving Hong Kong and arriving in the UK would be an intrinsic part of the evacuation, reception and resettlement arrangements.

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B

DECISIONS AS TO IMMIGRATION CONTROL/REFUGEE STATUS

'Green' phase

During this phase the normal immigration control arrangements will continue to operate. Although certain groups - those with right of abode and others given a guarantee of admission - will be freely admissible in any circumstances, Hong Kong BDTC's and non-British nationals arriving from Hong Kong will in general be liable to be refused leave to enter and returned if they attempt to enter the UK for settlement without the appropriate entry clearance or as visitors without being able to satisfy the immigration officer that they intend to leave the UK at the end of their planned stay. Before 1 July 1997, it is difficult to envisage any decision being taken to grant refugee status under the terms of the 1951 UN Convention to persons coming from Hong Kong. After 1 July 1997 applications for asylum are more likely and would be more difficult to refuse, if only because it would be more difficult to make the enquiries necessary to rebut the suggestion of persecution. In practice, as previous examples show, any large increase in numbers of asylum-seekers arriving in the UK defeats the capacity of the system for considering applications (whatever the merits) and is self-reinforcing.

✓ An increase in the number of doubtful visitors or, after 1 July 1997, of persons from Hong Kong seeking asylum would itself (see "Monitoring") be one of the indicators which might bring the 'amber' phase into operation.

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From: Mr N Bevan, Assistant Under Secretary of State (Commitments)

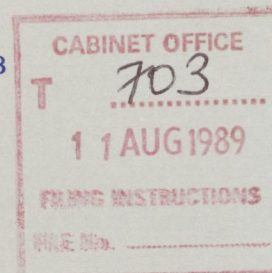


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AUS(C)4/7/2/2(298/89)

W D Reeves Esq  
Cabinet Office  
70 Whitehall  
SW1

10 August 1989

Dear Bill,

CONTINGENCY PLANNING FOR HONG KONG: MISC 140

As agreed at the last meeting of MISC 140, I attach a revised version of the MOD contribution to the paper on contingency planning, taking into account the requirement to break down decision making into green, amber and red phases.

✓ Given the essentially informative nature of the original draft, I have not attempted any wholesale re-ordering: instead I have added a section on actions that could be taken in each of the phases. Depending on how the whole paper is to be presented, it would be possible to incorporate the attached complete in the main text, or extract all but paragraphs 12-14 into an Annex. The only other point I should add is that the attached is intended to cover all military assistance in the event of an emergency, not simply military evacuation. The title of this section in the complete paper should be amended accordingly.

Yours ever,

Nicolas

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## HM Treasury



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23

W D Reeves Esq  
Cabinet Office  
70 Whitehall  
LONDON SW1A 2AS



10 AUGUST 1989

Dear Mr Reeves

At the second meeting of MISC 140 last Wednesday Margaret O'Mara was asked for a revised Treasury contribution on costs in the light of the information assembled in the draft paper. I enclose a paragraph which confines itself to generalities because the Home Office and FCO are responsible, under well established procedures, for identifying the costs which are expected to fall on departmental programmes. The same can also be said about taking discreet soundings from departments about the impact on their budgets of the problems associated with Vietnamese boat people.

Yours sincerely  
K S Wright

K S WRIGHT

In Appleby's file

This seems to me a very feeble contribution.  
The Treasury have clearly made no effort at all.  
Would you be willing to have a word with Mrs Case?  
(This paragraph has come to us after I explained  
to Mr Wright over the phone what was wanted —  
and that six lines of justification would be worse)

*[Signature]*  
11/8



**TREASURY PARAGRAPH**

The arrangements under consideration would involve additional costs falling on a number of departmental programmes. Until these are clearly identified Ministers could not be expected to endorse any approach on contingency planning. In aggregate, however, costs are likely to be very large under the "amber" and "red" emergency phases. It would therefore be important to ensure that such costs were not incurred until absolutely essential.





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Covering SECRET

Mr D G Manning  
Cabinet Office  
70 Whitehall  
London SW1



10 August 1989

22

*Do to Manning*

MISC 140

I attach a draft of the transport sections of the paper in the form agreed at the meeting of 2 August.

*Yes to King*  
*P Kitchen*

P Kitchen -  
Defence Planning and Emergencies Division

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475/5 all done per.



Foreign and Commonwealth Office

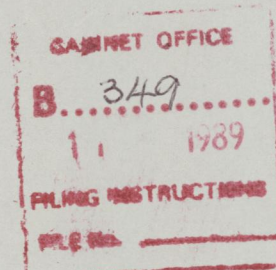
London SW1A 2AH

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LOPAAE

10 August 1989

L V Appleyard Esq, CMG  
Cabinet Office



Dear Len,

#### CONTINGENCY PLANNING

1. As agreed at your meeting on 2 August, I enclose revised sections for the contingency planning paper, along the lines stipulated in the minutes MISC 140(89) 2nd Meeting.

2. My contributions are as follows:

(a) Scenarios: I have added a paragraph about the distinction between economic migrants and refugees; I have included references to the stationing of the PLA in Hong Kong after 1997 and the fact that the Chinese have the right under the Basic Law to declare a state of emergency in the territory; and I have strengthened the passage which highlights the determining role of the Chinese Government in deciding whether substantial numbers of Hong Kong people could leave the territory. I have also indicated in the various scenarios how and when the amber and red phases might occur. For convenience, I enclose a further copy of the revised text, with the changes highlighted.

(b) Recommendations for action on regional clearing centres, under green, amber and red phases. As you will see (and you may not necessarily agree on this point) I do not recommend action in the green phase.

(c) Recommendations for action on emigration and monitoring (I have covered the Hong Kong end only: I assume I may leave it to the Home Office to consider the UK end).

(d) Recommendations for action on external consultation under the various phases.

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(e) A draft reply to a PQ on contingency planning.

2. If there are any queries, I will be available to answer them until my departure on leave on Friday, 18 August. As you know, Robin McLaren returns from leave at the end of the month.

*Yours Sincerely,*

*A R Paul*

A R Paul  
Hong Kong Department

cc: W D Reeves Esq, Cabinet Office  
D G Manning Esq, Cabinet Office  
R McLaren Esq

SECRET





## SCENARIOS

The paragraphs below set out possible scenarios for both the pre and post 1997 period. [We have considered] these possibilities <sup>are considered</sup> in detail, not only [in order] to illustrate the sort of events which might trigger a crisis in Hong Kong, but also because they have important implications for the way in which those who fled <sup>from</sup> in Hong Kong would be perceived by the international community. A distinction - never easy to draw in practice - would probably have to be made between economic migrants and refugees. The former category would apply to people whose primary motivation was the search for a better standard of living. The latter would apply to those escaping political persecution. The difficulty would arise in respect of those cases - probably the large majority - where the desire to leave Hong Kong was motivated by a fear of what might happen to them and their families in the future, rather than by the effects of actual persecution or repression.

## PRE 1997 SCENARIOS

There are essentially two pre 1997 scenarios which contingency planning will need to address:

(a) A steady ebbing away of confidence, culminating in rising panic or economic collapse

If the confidence of the people of Hong Kong is not restored, there will inevitably be an increasing outflow of capital and talent from the territory. The rate of emigration would be limited only by the availability of places in the destination countries. Investment in the territory would dry up. Property values would decline. The stock market would be increasingly vulnerable to panic selling. There would be a steady and largely imperceptible slide from the green to the amber phase. Once in the amber phase, even a relatively minor event could trigger economic collapse and panic amongst the community (ie the red phase), leading to a major exodus. The transition from the amber to the red phase could be very short.





(b) Panic provoked by further developments in China

Hong Kong people will from now on be even more sensitive than before to developments in China, such as a repetition of the brutal use of military force against Chinese civilians; the unleashing of a campaign of terror and repression against sections of the population; or the breakdown of order in China leading to civil unrest or civil war. Such developments, singly or in combination, could cause panic in Hong Kong. There could be a swift transition from the green phase, through amber, to red. Alternatively, the Chinese Government might issue verbal threats against the territory or even take some threatening action, such as massing troops on the border. Depending on circumstances, there might be little warning of this. Again, the transition from the green phase to red would be swift. None of these gestures would in any sense serve China's own wider interests, but the Chinese might nevertheless resort to them for domestic political reasons or if they were alarmed by developments in the territory.

These two broad scenarios are not necessarily distinct. A combination of them or elements of them, might also occur. In any case, the closer we come to 1997, the more vulnerable Hong Kong will be to panic triggered by even a relatively minor event which could in turn lead to very large and unmanageable numbers of people trying to leave. Similarly, the closer to 1997, the more rapid the transition from green to red will be (assuming of course that the very approach of 1997 does not carry us into the amber stage).

The risk of a panic exodus is arguably greater in the period before 1997, as people would be motivated by the desire to get out before (as they would fear) the doors closed after the transfer of sovereignty. If we managed to get through 1997 without such a disaster, there would nevertheless probably be a steady haemorrhage of people leaving Hong Kong. [But two further possible post 1997 scenarios would need to be considered.]



*There are two possible post 1997 scenarios that need to be considered*

(a) Internally generated panic

Under this scenario, Hong Kong would already have been seriously weakened by years of emigration of its brightest and best and by the thinning out of international investment in the territory, and further demoralised by the transfer of sovereignty. In a deteriorating situation (the amber stage), Hong Kong's inhabitants would judge that the Joint Declaration was not working: this might be because of increasing Chinese interference; because of growing corruption in the territory; or because of a perception that Britain and the rest of the international community were no longer willing or able to do much to help. In these circumstances, despair could turn to panic (amber to red) particularly if people lost confidence in the promise of freedom of movement in the Joint Declaration.

(b) Panic provoked by China

Any of the developments outlined in paragraph 3 (b) above could equally well occur after 1997, with the same devastating effect on confidence. But after 1997 the risk (and fear) of direct Chinese interference in Hong Kong's affairs would be substantially greater. Under the Joint Declaration, the Chinese have the right to station troops in Hong Kong after 1997 and they have made it clear that they intend to do so. The draft Basic Law gives them the right to declare a state of emergency in the territory. Either development would be bound to affect local attitudes. Any China-provoked panic would probably be swifter and more devastating in its effect, thereby shortening the transition from green through to amber and red.

There are more imponderables in these post 1997 scenarios. In particular, we do not know what attitude the Chinese authorities would take in the event of a mass exodus. They might try to impede departures or they might allow it to happen. Under certain circumstances they might even encourage those they deem to be troublemakers to go. What is, however, clear is that after 1997





the attitude of the Chinese Government will be the determining factor in whether substantial numbers of the inhabitants of Hong Kong could leave the territory and in what circumstances. The Chinese would have the means to prevent a mass exodus and (arguably) the right to prevent an international evacuation operation in Chinese waters.





## REGIONAL CLEARING CENTRES

## Recommendations for action:-

(a) Green phase

No action is recommended at present. Our priority must be to secure the agreement of the countries in the region to the establishment of a regional clearing centre for Vietnamese boat people, not Hong Kong residents. The risk of any such approaches leaking to the press (and further damaging morale in Hong Kong) would in any case make the wisdom of such action questionable, except in very dire circumstances.

(b) Amber phase

Once it was clear that a grave crisis was imminent, we would need to speak urgently and in strict confidence to governments in the region including: Singapore, Malaysia and Thailand (who have substantial ethnic Chinese communities), the Philippines (who have the most direct experience of holding centres), but probably not Indonesia (who have some antipathy towards ethnic Chinese). It would also be desirable to explore the readiness of Taiwan to help, although our approach could not be on a government to government level. If time permitted, and depending on the response of governments, we should aim to draw up contingency plans with them.

(c) Red phase

We would step up our efforts to get the governments concerned to help. Measures that could be considered include public appeals (targeted at the ethnic Chinese communities in the region) and the convening of a special conference to mobilise support.





## EXTERNAL CONSULTATION

## Recommendations for action:

(a) Green phase

✓ We should intensify our efforts to secure firm and specific commitments from other governments, in both bilateral contacts and in multilateral fora, to take people from Hong Kong in need of a home of last resort. A table of opportunities in the coming months is attached. Once we have announced what we are prepared to do, we can use our readiness to help as a lever to get detailed undertakings from others. The more generous we are able to be, the better our chances of generating substantial offers from others.

(b) Amber phase

✓ We should convene an International Conference, with the aim of securing commitments that would cover the entire population of Hong Kong. We would cast the net widely to include, for example, Central and South American countries such as Brazil, Argentina etc. We would have to be prepared, however, for calls for a further substantial commitment from the UK.

Consultations would cover not only the question of homes of last resort but would need (perhaps in a more restricted circle) to cover coordination of international evacuation operations.

(c) Red phase

✓ The International Conference might be usefully reconvened: the impact on international opinion of an acute crisis in Hong Kong might well stimulate a more generous response from governments. We should seize that opportunity.



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## EMIGRATION AND IMMIGRATION MONITORING

Recommendation for action:

✓ (a) Green phase

The Hong Kong Government are continuously refining their data collecting techniques. We should encourage them to persist in their efforts.

X (b) Amber Phase

No further action in Hong Kong would be necessary: the reality of mass emigration would be self-evident.

(c) Red phase

No further action in Hong Kong would be necessary.



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MEB

MR APPLEYARD

cc Mr Mann

MISC 140

Mr Manning has done an excellent job in pulling the threads together in his paper. My I suggest three policy issues which arise and which would be worth debating this afternoon?

Refugee status

2. Whether or not this should be regarded as a refugee exercise seems to me to depend on circumstances. At the risk of over-simplifying, the scenarios at paragraph 3a and 5a do not seem to me to amount to persecution which would justify those fleeing being labelled refugees, whereas the scenarios at paragraphs 3b and 5b might do so. If this argument were accepted, it makes a considerable difference to HMG's political obligations and raises the question what Ministers mean when they speak of the UK having a responsibility to discharge in "the alternative last resort situation of events overwhelming the people of Hong Kong" (Sir Geoffrey Howe, 14 June). It seems to me this is the first question that needs to be put to Ministers.

Numbers and costs

3. I have set out at Annex what would be achieved if all the world's cruise ships could be chartered for 28 days and devoted to ferrying people from Hong Kong to Taiwan, on highly favourable assumptions that all this could be done smoothly and without impediment. The results are interesting; half the population would be got out, but at a cost of £800M simply for this part of the operation, leaving all the costs of onward movement, reception, resettlement etc. This suggests two

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conclusions: firstly that it is financially impossible for the UK to mount such an evacuation and resettlement exercise alone (I realise that is not what Ministers contemplate, but the impossibility needs to be brought home), and secondly that the Prime Minister is right in saying it would be physically impossible to get everyone out. This suggests that a profitable line of investigation would be to examine the implications, including cost, of evacuating and resettling different totals, say between the extremes of 50,000 and 1 million.

The nature of contingency planning

4. It seems clear that comprehensive and detailed planning would require wide consultation, both internationally and at home. The suggestion of establishing a resettlement board (paragraph 38) is a helpful one, and it would be useful to find out more about the composition and working of these boards this afternoon. If Ministers take the view that wide consultation is unacceptable, however, I think our contingency plan is going to consist largely of "amber points" at the onset of a crisis in which HMG begins to consult other people at home and abroad.

WD Reeves

W D REEVES

2 August 1989

Att

One final thought: the press line at Annex F calls for some discussion, but how would we respond to a PA today asking whether the Government are undertaking contingency planning?



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ANNEX

1. Assume

- (a) all 143 cruise ships chartered for 28 days at a cost of £0.2M *pr ship* per day;
- (b) allow average of 14 days to reach Hong Kong, leaving 14 days for ferrying people out;
- (c) during those 14 days all ships do round trip to Taiwan every 3 days, carrying 5 times ~~round~~ <sup>normal</sup> passengers complement.

2. Total cost £800M excluding consequential costs such as refitting afterwards. For this, 2.426 million people moved from Hong Kong to Taiwan.



2nd Aug 89

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*Destroyed*  
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*MEIS*

MR APPLEYARD

cc Mr Reeves  
Mr Mann

MISC 140: SECOND MEETING  
Chairman's Brief

1. The second meeting of MISC 140 will be at 3.00pm, on Wednesday 2 August 1989, in Conference Room B. Those expected to attend are Mr Peretz and Ms O'Mara (both Treasury), Mr Paul (FCO), Messrs Fries and Varney (Home Office), Mr Bevan (MOD), Mr Watson (Department of the Environment), and Mr Kitchen (Department of Transport). Mrs Case (Treasury) and Mr McLaren (FCO) will be away on leave.

2. The purpose of the meeting is to discuss the draft paper on contingency planning (MISC 140(89) 2). You might begin by thanking Departments for their contributions and explain that the draft is no more than a first, hurried attempt to organise the material. You might invite general comments. In particular, does the Group agree that the different sections of the draft are in a logical order:

- Introduction (pages 1-2);
- Scenarios - Pre 1997 (pages 2-3);
  - Post 1997 (pages 3-5);
- Evacuation - Civil by Sea (pages 5-8);
  - Civil by Air (pages 9-10);
- Military Evacuation and other military considerations (pages 11-16);
- Reception and Resettlement (pages 16-23);
- Regional Clearing Centres (pages 23-25);
- External Consultations (pages 24-27);

FLAG A



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- Costs (page 28);
- Emigration from Hong Kong and Immigration to the United Kingdom (pages 28-33);
- Contingency Press Line (page 34);
- Whitehall Machinery (pages 34-35).

3. You might then take the paper by sections, asking originating Departments to revise their drafts in the light of discussion before passing them to the Secretariat, who will then rework the whole draft.

i. Introduction:

Are all the elements covered?

ii. Scenarios:

Drafted by the FCO. Have they anything to add?

Pre 1997 Scenarios:

- At MISC 140's first meeting, the FCO suggested that there were three pre 1997 scenarios (see minutes pages 3 and 4). They have now amalgamated the first and third scenarios. Does this do justice to the arguments? Should the possibility that economic collapse could provoke a crisis of confidence be considered, as well as the possibility that it would result from such a crisis.
- It was pointed out at MISC 140's first meeting (see minutes page 4.c) that even a gradual build-up in the number of emigrants might put pressure on the quotas offered by receiving countries. This in turn might lead to panic in Hong Kong. Should this be reflected in the scenarios?

FLAG B

*reasonable*



SECRET

Post 1997 Scenarios:

- This section might bring out more clearly that post 1997 it would be the Chinese attitude that would determine not only whether Hong Kong's inhabitants wanted to leave but also whether they were physically able to do so. It would also be the Chinese who would determine what, if anything, the refugees could take with them. (See minutes page 6 points a. and b.)

- 5b. stationing of Chinese troops: State of Emergency under Basic Law

iii. Evacuation: Civil by Sea and <sup>Air</sup> Land:

Drafted by the Department of Transport. Anything to add?

- Is this the place to make the point (see minutes page 13 point d.) that there are legal and financial implications about picking up refugees?

- estimate of uncontrolled evacuation? Vietnamese Boat People

iv. Military Evacuation and Other Military Considerations:

Drafted by MOD. anything to add?

Chinese willingness after 1997? Not likely? Designated for sensitive people? para 27 Chinese cd prevent evacuation before + after 1997.

v. Reception and Resettlement:

Drafted by the Home Office. Anything to add?

- The case made for the establishment of a Resettlement Board seems a good one. Does the Group agree? If so should the paper come down more firmly in advocating it?

- Potential difficulties over the status of those leaving Hong Kong may need bringing out more clearly. Paragraph 36a. of the paper states:



SECRET

" ... the Uganda Asians were treated and accepted by the public as refugees. That might not be the case with any influx from Hong Kong - particularly those who left of their own choosing for economic reasons."

However, at the first meeting of MISC 140 (see minutes page 13b.) the point was made that it would be in the United Kingdom's wider interest to argue that " ... in the event of any large scale emigration from Hong Kong, those leaving the territory should be considered to be refugees." Should the paper therefore explicitly recommend linking the announcement that a Resettlement Board had been established (which presupposes that a large scale exodus is either imminent or underway), with a declaration that the Government considered all those leaving Hong Kong to be refugees?

vi. Regional Clearing Centres:

Drafted by the FCO. Anything to add?

- FCO note on Hong Kong/Amber/Emergency Phases

vii. External Consultations and Plan of Action:

Drafted by the FCO. Anything to add?

- Agm note on Phases

- What about approaching the Japanese? (Is the Prime Minister visiting Tokyo in September?)

- What about the Philippines, since they are one of the countries closest to Hong Kong and one which refugees might well try to reach?

\*

viii. Costs:

Drafted by the Treasury.

\*

You suggested some orally that the FCO might be asked to prepare a coordinated contacts plan for use at CIOG + UNKIA: amplification of table



SECRET

- You might ask the Treasury to provide a greatly expanded contribution on costs in the light of the information now assembled in the draft paper.

*- Phase One: minimal additional costs, Phase Two: increased costs, Phase Three: full costs*

ix. Emigration from Hong Kong and Immigration to the United Kingdom:

Drafted by the Home Office and the FCO.

This section usefully describes the current practices and the difficulties/costs of elaborating them. However, Ministers may well look for more to be done: emigration and immigration figures are, after all, the main early warning indicators.

- Should the paper recommend specifically (see para 61) that the Immigration Service should be asked to provide weekly figures of arrivals of Hong Kong BDTS, and daily figures during an "amber phase", despite the increased costs? Can we estimate what the costs in each case might be?
- Should the paper recommend that the Hong Kong Immigration Department should be asked to provide statistics for entry clearance applications more frequently than at present, despite the fact that this would alert those in Hong Kong to the probability of a monitoring operation?
- Are there other possibilities as yet unexplored? Would it be worth setting up a Sub-Group (FCO and Home Office) to examine this issue exhaustively, and in a longer time

*or monthly + weekly?*



SECRET

frame than is possible for MISC 140 as a whole, given the need to submit the paper to Ministers as soon as possible?

x. Press Line:

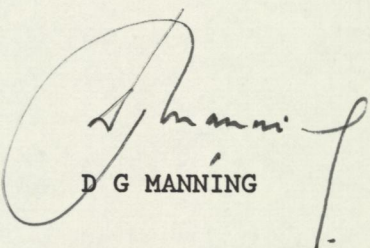
Drafted by the FCO. anything to add?

- Amber phase
- The line deals with a theoretical crisis, not an actual one. Do we need another to cope with a sudden emergency and a sudden exodus?

xi. Whitehall Machinery:

- How often should the Group meet once contingency planning has been completed, and approved by OD(K). Every 3-4 months, unless events dictate otherwise? *6 mths?*
- What measures should be added to the list for the "amber phase"?

4. You might conclude by asking Departments to let the Secretariat have revised contributions by close on Monday 7 August, whereupon the Secretaries will compile and circulate an amended draft. You might also ask Departments to let the Secretariat have the names and telephone numbers of those who will be available during the holidays, both for contact purposes and for further meetings of MISC 140 as necessary.

  
D G MANNING

Cabinet Office  
2 August 1989

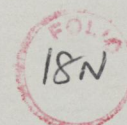
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*Contributions all incorporated  
in draft paper.*

*Misc 140 Box per 1/3/89*

HOME OFFICE  
QUEEN ANNE'S GATE  
LONDON SW1H 9AT

01 273 3383

28 July 1989

L V Appleyard Esq  
Cabinet Office  
70 Whitehall  
London SW1



*Mr Reeves*

*Dear Mr Appleyard*

OFFICIAL GROUP ON CONTINGENCY PLANNING FOR HONG KONG

I enclose the contributions commissioned from the Home Office at your meeting on 18 July, covering respectively arrangements for reception and resettlement and for monitoring arrivals from and departures to Hong Kong.

Perhaps inevitably, given the time at our disposal so far, the first contribution concentrates more on reception than resettlement arrangements, as being the area for which we have more experience and contingency planning. We shall have to consider what to say about resettlement in the light of the scenarios worked up from your other contributions. The potential scale of the influx for which resettlement arrangements might be needed may require entirely novel solutions. It may be worth bearing in mind that the Hong Kong issue has, judging by media reports, prompted some outside work on the economic implications of a mass influx.

I am sending copies of this letter and enclosures to Gavin Watson, DOE and to Nigel Varney, Immigration and Nationality Department, Home Office only at this stage.

*Yours sincerely*

*L.E. Davies*

*R* R J FRIES

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Foreign and Commonwealth Office

London SW1A 2AH

Mr Reeves

SECRET

ALAACI

L V Appleyard, Esq  
Cabinet Office  
70 Whitehall  
LONDON  
SW1A 2AS

27 July 1989



Dear Len,

OFFICIAL GROUP ON CONTINGENCY PLANNING FOR HONG KONG

1. As agreed at your meeting on 18 July, I have drafted passages on pre and post 1997 scenarios, external consultation, regional clearing centres, methods of assessing emigration from Hong Kong, and publicity, for inclusion in the draft paper which is to be considered at our meeting on 2 August.
2. Robin McLaren, as you know, will be absent on leave on that date. I will represent the Foreign and Commonwealth Office.

Yours Sincerely,

A R Paul

A R Paul  
Hong Kong Department

SECRET





Department of Transport

Room S2/07

2 Marsham Street London SW1P 3EB

SECRET

Telex 22221

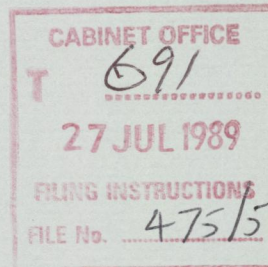
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Switchboard 01-~~222~~ 276 3000

GTN ~~22~~ 276

YR TO 610  
OR ST 17/25/022

W D Reeves Esq  
Cabinet Office  
70 Whitehall  
London  
SW1A 2AS



27 July 1989

*Dear Bill*

MISC 140

Thank you for your letter of 19 July.

I also was sorry not to have attended the meeting on 18 July: unfortunately your letter of 12 July did not reach me in time.

I attach a draft contribution on possible evacuation by civil shipping and aircraft. This makes a start in considering costs but I suspect that they are in the end largely incalculable because if we were to get ships or aircraft quickly we would also need to indemnify the suppliers against claims from frustrated passengers as well as paying the costs of refitting at the end of the charters.

*Yours sincerely  
Pat Kitchen*

P Kitchen  
Defence Planning and Emergencies Division

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Massey 5.6.96.

① Destroyed M&S

N.0481

1. MR REEVES
2. MR APPELYARD

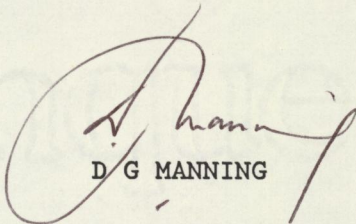
cc Mr Mann

I agree, but understand the meeting may now  
be delayed to 3 May. well  
22/7

CWA 22/7 we agree.

MISC 140

If you agree, I will issue the attached agendum for MISC 140's next meeting on 2 August.

  
D. G. MANNING

26 July 1989

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MISC 140(89) 2nd Meeting

COPY NO

CABINET

OFFICIAL GROUP ON CONTINGENCY PLANNING FOR HONG KONG

Meeting to be held in Conference  
Room B, Cabinet Office, Whitehall  
on Wednesday 2 August 1989 at 3.00 pm

AGENDUM

To discuss the progress of the draft paper

Signed D G MANNING  
B R MANN

Cabinet Office

26 May 1989

Mr Appleyard will be in the Chair. Those invited include:

Mrs A F Case, HM Treasury  
Mr D Peretz, HM Treasury  
Ms M O'Mara, HM Treasury  
Mr R J T McLaren, Foreign and Commonwealth Office  
Mr A R Paul, Foreign and Commonwealth Office  
Mr R J Fries, Home Office  
Mr N R Varney, Home Office  
Mr N Bevan, Ministry of Defence  
Mr G Watson, Department of the Environment  
Mr P Kitchen, Department of Transport  
Mr W D Reeves, Cabinet Office

IMPORTANT

It is ESSENTIAL that any others intending to be present at the meeting inform Committee Section, Cabinet Office (01-270 0107) by 11.00 am on Wednesday 2 August 1989.

THOSE NOT COMPLYING WITH THIS INSTRUCTION MAY BE REFUSED ENTRY TO THE MEETING.



633

HM Treasury



Parliament Street  
London SW1P 3AG  
Telephone 01 270 4509



Let's stick to 3pm.

②

*In copy*  
*In Series*  
*In Main*

Mrs A F Case  
Under Secretary

SECRET

D G Manning Esq  
Cabinet Office  
70 Whitehall  
LONDON  
SW1A 2AS



*Destroyed*  
*M. Caspey 5-6-86*  
*M. Caspey*

*24/7*

21 July 1989

Dear Mr. Manning

The next meeting of MISC 140 was provisionally fixed for the afternoon of 2 August when I shall be on leave. Either David Peretz (telephone 270-4460) or Margaret O'Mara (telephone 270-4699) will represent us. It would help them if the meeting could be as early as possible that afternoon.

MRS A F CASE





Mr. Reeves  
hcc Mr Appleyard  
Mr Manning  
Mr Mann

16

CABINET OFFICE

70 Whitehall London SW1A 2AS Telephone 01-270 0050

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*1 Destroyed.*  
T0610 *M. Asprey 5.6.96*  
*M. Ellis*

19 July 1989

P Kitchen Esq  
Defence Planning and Emergencies Division  
Department of Transport  
2 Marsham Street  
London SW1

*Dear Pat*

MISC 140

I am sorry that you were unable to be present at the first meeting of the Group yesterday. At the meeting the Chairman expressed a wish to make an early report to Ministers, and it was accordingly agreed that Departmental representatives would prepare papers on the various aspects of the problem listed in the Annex to the Chairman's letter of 12 July, to reach the Cabinet Office by close of play on 27 July. These inputs will then be stitched together into a skeleton paper for discussion at the Group's second meeting on Wednesday 2 August (time to be notified).

2. It will not surprise you to learn that the task allocated to you in your absence was to provide an assessment of the civil transport capacity, both shipping and aircraft, which could be made available in an emergency to transport refugees from Hong Kong (to what destination(s) remains to be considered). Your assessment should cover not only numbers of places but also response times, taking account of where the ships or aircraft might be located if a crisis blew up at short notice. You may be able to advise on whether any earmarking in advance is possible. Although our primary interest is in UK and Hong Kong transport resources, any evacuation might well have to be a joint venture with other friendly nations, particularly those in the region or with interests there, and anything you can say about the latter will be helpful. It is probably premature for you to say anything about costs, but we shall need to cover this in due course.



SECRET

3. I appreciate that it may not be easy for you to produce definitive answers within the timescale, and an incomplete answer, whose gaps would be filled in later, would be acceptable. I might add that Nicolas Bevan, to whom I am copying this, is undertaking a parallel assessment of military resources.

4. I look forward to hearing from you.

*Yours sincerely*  
*Bill Reeves*

W D REEVES

SECRET



*C. Grateful if you  
would ask Committee Secy  
to ensure that  
Sir Phadock*

*Informed Mr Cohen.  
20.7.89.*

*Mr Manning*



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T0609

*Mr MacRae  
5.6.96  
Massey. receive all MISC 140 pps  
Destroyed MGS*

*Thank you*

*Mr Reeves*

*I agree*

MR APPLEYARD

*cc Sir Christopher Curwen  
Mr Manning*

# HONG KONG

At Sir Percy Cradock's meeting this morning I mentioned MISC 140 and its task, and it was agreed that Sir Percy and Mr MacRae would be put on the distribution of the Group's papers. The Co-ordinator mentioned that, following an exchange with the Cabinet Secretary, he had it in mind to re-establish the Co-ordinator's Working Group on Hong Kong, probably in September. If he does so, there may be scope for some useful interaction between that body and MISC 140, and this possibility might be worth bearing in mind.

*W D Reeves*

W D REEVES

18 July 1989

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17 July 89

Mr Reeves

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MR APPLEYARD

cc Mr Manning  
Mr Mann

MISC 140: FIRST MEETING, TUESDAY 18 JULY

I suggest that the aims of the meeting should be:

- a. to assess the dimensions of the task through a general discussion;
- b. to settle a timescale for the exercise. You may agree that an interim report to Ministers by end-October would be a sensible aim, though this could only indicate what might be possible, and its implications, and could not amount to a full-scale contingency plan;
- c. to give Departments represented on the Group an indication of the work likely to be commissioned from them;
- d. if possible, to commission papers which might be discussed at a further meeting before the holidays. I would suggest the week beginning 31 July provided a quorum can be assembled. I suspect it will be difficult to get much out of the FCO in this timescale since those concerned with Hong Kong are busy on other tasks; but they might agree to produce scenarios.

2. You may wish to open the meeting by recapitulating briefly the background of recent events in China and Hong Kong, and to place the present exercise in the context of a wider work programme (though you should avoid elaborating on the right of abode problem, which is being dealt with in a very restricted circle). You might suggest that the headings in the Annex to your letter of 12 July be taken as an agenda for discussion. You might then ask Robin McLaren whether he has



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anything to add, and in particular what if anything has been said to other Governments about the Armageddon contingency at the Economic Summit or elsewhere.

3. The topics identified at the Annex to your letter tend to overlap, and the writing of scenarios involves thinking about several of the other headings. Subject to discussion the Group might be led to agree that there are three basic scenarios worth considering which can be distinguished by time of occurrence. In ascending order of difficulty, they are an exodus in the early 1990s, an exodus shortly before 1997, or an exodus shortly after 1997. (At a pinch you could combine the first and second.) The FCO might be invited to draft three outline scenarios accordingly. They would need to draw on their imaginations for this, and should also be asked to spell out as fully as possible the problems they think would arise in each case (taking account of the other headings at Annex), without necessarily suggesting solutions at this stage.

External consultation

4. This seems to be happening already to some extent. Nevertheless it is difficult to see how we could usefully talk detail with other Governments until we have worked up some ideas of our own. The possible exception may be the Hong Kong Government, and you may wish to seek the FCO's views on whether they should be associated with the exercise or whether it should be UK EYES ONLY. At first blush I see advantages in the latter approach.

Activation of the arrangements

5. I suspect it will be obvious when the crisis has arrived.

Numbers

6. The Prime Minister does not regard the emigration of the entire population of Hong Kong, or anything like it, as feasible and I suspect



SECRET

she is right. In an Armageddon situation there would be the two elements: self-emigration, where numbers are completely unpredictable, and any organised evacuation, which would be a function of transport capacity and access to the would-be refugees. We might begin by inviting the FCO to suggest a range of illustrative total numbers, and then try to assess how this measured up to the transport possibilities.

Transport

7. The factors here are the capacity available, response times, and distance to the point of disembarkation. MOD and DTp might be commissioned to produce assessments for Service and civilian transport respectively, in each case taking account of allied/foreign resources, including those of Hong Kong itself.

Resettlement destinations

8. The two interlinked questions are how many the UK might take (Home Office) and how many other countries might realistically be expected to take (FCO). As regards the latter, the FCO have a good deal of recent experience of trying to resettle Vietnamese boat people; they might be asked to consider what lessons this has for a possible exodus from Hong Kong. The Home Office should also be encouraged to think about the terms on which refugees from Hong Kong might enter the UK; would they be given right of temporary abode, or indefinite leave to remain, or full British citizenship?

Reception and resettlement arrangements in the UK

9. Reception facilities would have to come from the Home Office and MOD. Both have experience of the Ugandan Asians from the 1970s, the records of which might be dusted off. As regards permanent resettlement, it would for DOE to advise in the first instance, though DEm, DES, DOH and DSS would need to be brought in in due course. This part of the work is probably some way downstream.



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Service assistance

10. MOD should be encouraged to think broadly and constructively about this.

Resources

11. This is for the Treasury; it is probably too early to say much at this stage.

Publicity

12. It is not too soon to be considering a defensive press line regarding the work of MISC 140. Subject to comments at the meeting, it should be possible to produce an anodyne formula which draws on the Foreign Secretary's public statements.

*Jean Shelwin*  
pp W D REEVES

17 July 1989





Verbatim  
Service

13m *Handwritten initials*

*Mr News*

*Mr 140 Roper*



VERBATIM SERVICE VS070/89

FRIDAY 14 JULY 1989

PRODUCED BY LONDON PRESS SERVICE, CENTRAL OFFICE OF INFORMATION

HONG KONG AND CHINA

Following are major extracts from the closing speech by Mr Timothy Eggar, Parliamentary Under-Secretary of State for Foreign and Commonwealth Affairs, in the House of Commons debate on 13 July 1989:

We have had a full and serious debate. At times it has been impassioned, and rightly so. There have been many notable and memorable contributions. The House has yet again exhibited its unanimity of concern for Hong Kong - a unanimity of concern that transcends party boundaries, which was demonstrated in the report of the Foreign Affairs Select Committee. The speeches have, as usual, reflected right honourable and honourable Members' detailed knowledge of Hong Kong, its problems, challenges and successes. I shall try to answer as many as possible of the questions asked by right honourable and honourable Members in all parts of the House in the time that I have available.

The honourable Member for Carrick, Cumnock and Doon Valley (Mr Foulkes) asked about the proposed mission to China by the 48 Group of traders. I assure the Opposition that the Department of Trade and Industry is in consultation with the 48 Group, and the question of the Government's financial support is being reviewed in the context of those consultations. I understand that the 48 Group itself has been reconsidering its plans.

This evening the House has accepted that the fundamentals of the Government's policy on Hong Kong remain the right ones - right because they offer the best chance for the people of Hong Kong to sustain their way of life after 1997. That is what the people of Hong Kong want - and it is what Britain, the Government and this House want for them. It is also what China is pledged to accept without conditions - and to continue to accept as its own economic and political system evolves in the years up to and beyond 1997.

Tragic recent events in China mean that Hong Kong, understandably, looks to this House for reassurance. Many right honourable and honourable Members stressed the importance and extreme difficulty of rebuilding confidence in the territory. .... I do not pretend to believe that we can lay to rest all of Hong Kong's fears. The events of 3 and 4 June were too awful and too recent to allow us to say to the people of Hong Kong, "Don't worry." We would not presume to do that. However, we are working to give Hong Kong the reassurances that it needs - the reassurance of a Bill of Rights, of more changes to the Basic Law, and of more rapid progress towards representative Government. We hope that, by doing so, we shall help to restore confidence in Hong Kong.



However, China - as many of my right honourable and honourable Friends said - also must play its part in restoring confidence in Hong Kong. China must demonstrate and re-emphasise its commitment to non-interference in Hong Kong - a commitment that it has already made.

I understand the feelings of many honourable Members that in these difficult circumstances it is right for us to give democracy to Hong Kong as quickly as possible. That is why we are carefully considering the pace and nature of democratisation. When we take these critical decisions, it is important that they are the right ones. As my right honourable Friend the Member for Blackpool, South (Sir P Blaker) said, a consensus is absolutely essential. It would be wrong to rush in and make snap decisions before opinion in Hong Kong has crystallised and to seek to impose our solution in this most delicate area.

Clearly, there has been a shift of opinion in Hong Kong. Even before the events of 3 and 4 June, OMELCO had called for a faster pace of democratisation. We need to see whether that remains its view. It is already clear that plans for elections in 1991 will have to be reconsidered. We shall pay careful attention to that. Ever since the 1984 declaration, we have aimed to achieve continuity up to and beyond 1997. The Hong Kong people understand and share that objective. It must be right for us to seek to ensure that the democratic system that we establish before 1997 should continue after the transfer of sovereignty to the People's Republic. Therefore, it is critical that the provisions in the Basic Law reflect the wishes of the Hong Kong people and carry forward the changes that we plan to make before 1997.

Naturally, we shall pay the closest attention to opinion in Hong Kong. Once it has crystallised, we shall press within the framework of the Basic Law for the correct outcome and marry the Basic Law with that opinion. .... I wish to make it clear that we want to understand exactly how the people of Hong Kong feel on this critical issue. Once that view has crystallised, I can assure the honourable Gentleman that we shall fight hard for their interests within the Basic Law.

Many honourable Members have commented on the right of abode. As my right honourable and learned Friend has made clear, there is simply no way that the British Government could grant several million people the right to come and live in Britain. Such a massive immigration commitment is equivalent to about 6 per cent of our population. It would be wholly impractical, the Select Committee on Foreign Affairs agreed with that in its recent report.

It is more than impractical-it is wrong-to hold out the promise of an insurance policy in the knowledge that a future British Government could not possibly deliver. To do so would be a cruel deception. That having been said, however, the Government are looking as a matter of urgency at what can be done to meet the concerns of the people of Hong Kong, as my right honourable and learned Friend the Foreign Secretary explained in his opening speech.

The scheme that we envisage will not apply solely to the rich and powerful, but will take account of factors such as the value of service to Hong Kong. Our aim is to encourage people from both the public and the private sectors whose skills are essential to Hong Kong's continued success to remain in Hong Kong, thus benefiting it



between now and 1997.

Honourable Members have rightly emphasised the importance of the international dimension in seeking to give secure assurances for all the people of Hong Kong. It is clear that it would simply not be a practical possibility for Britain to provide such assurances alone. That is why we shall look for support to our friends and partners, who can help to reinforce confidence now by acknowledging that, if the worst comes to the worst, they have a responsibility to help. We have already begun discussions with our partners in Europe, the United States and the Commonwealth, and we intend to continue them vigorously at the Paris summit, at the Commonwealth Heads of Government meetings and at subsequent international meetings.

For us, Hong Kong's future is a top priority. Many honourable Members have commented on recent events and on the repression in China. About a week ago, we took the opportunity to raise China's human rights record at a meeting of the United Nations economic and social council, and we shall be working unremittingly to ensure that China's leaders understand fully how much world opinion condemns their appalling actions. They should also realise that continued repression will inhibit the progress of economic reform to which they say that they are committed, and which is so important to the future of their country.

We do not intend to isolate China. I can assure honourable Members on both sides of the House who have urged me to do so that my right honourable and learned Friend will take whatever opportunities occur to meet his opposite number in China to put across the specific anxieties expressed today.

Today's debate is being followed closely in Hong Kong: The people are anxious for reassurance. That is why my right honourable and learned Friend went to Hong Kong: to hear the territory's concerns at first hand and to make it clear that Britain has not wavered, and will not waver, in her commitment to the people of Hong Kong. We are honest and honourable enough to acknowledge that there are assurances that we cannot provide, and limits to what we can do. That is inevitable: it follows from the Joint Declaration and from Hong Kong's historical and geographical position. As the House recognises, we are not free agents in the matter of Hong Kong's destiny, any more than are the people of Hong Kong themselves. That may be a painful reality, but it is a reality nevertheless, and we in the House and the people of Hong Kong must accept it.

The Government are not about to cut loose from Hong Kong. We are not going to leave its people to an uncertain future. As a physical manifestation of that continued commitment, we are already planning for a large and prominent consulate-general, as was requested by the Select Committee on Foreign Affairs. Britain will be fully engaged at every stage in the establishment of an arrangement that will ensure the continuity of Hong Kong's way of life after 1997, a way of life that has provided the basis for a remarkable success story.

ENDS VS070/89



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PERMANENT UNDER-SECRETARY OF STATE

MINISTRY OF DEFENCE

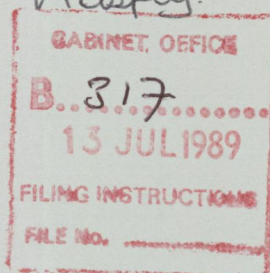
MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2839 (Direct Dialling)

01-218 9000 (Switchboard)

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M. Aspery.

M. Aspery

CJW/E89/696  
9/20

13 July 1989

Dear Mr Appleyard,

HONG KONG: CONTINGENCY PLANNING

Sir Robin Butler wrote to Sir Patrick Wright on 7 July about the creation of an Official Group on Contingency Planning for Hong Kong (MISC 140). Sir Michael Quinlan wishes to nominate Nicholas Bevan, AUS (Commitments), as the Ministry of Defence representative on the Official Group.

Yours sincerely,  
C J WrightC J WRIGHT  
Private Secretary to  
Sir Michael Quinlan KCB

Mr Reeves

L Appleyard Esq  
Cabinet Office  
70 Whitehall  
London SW1A 2AS

CONFIDENTIAL



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276

CONFIDENTIAL

L V Appleyard Esq  
Cabinet Office  
70 Whitehall  
London SW1A 2AS



13 July 1989

Dear Mr Appleyard

HONG KONG: CONTINGENCY PLANNING

Sir Robin Butler's letter of 7 July to Sir Patrick Wright asked Sir ALAN Bailey, to nominate a Department of Transport representation for the official Group on Contingency Planning for Hong Kong (MISC 140).

I shall be the DTp representative; address and phone number as above.

Yours sincerely  
P Kitchen

P Kitchen  
Defence Planning and Emergencies Division

cc PS/Permanent Secretary  
Mr Sunderland  
Mr Lyness

CONFIDENTIAL





*Mr Reeves*



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S-696.  
M. ASPEY.  
1 DESTROYED.

CABINET OFFICE  
70 Whitehall London SW1A 2AS Telephone 01823 270 0360

SECRET

B.0152 *new*

12 July 1989

*Dear Robin,*

Official Group on Contingency Planning  
for Hong Kong

The first meeting of the Group has been arranged for Tuesday 18 July at 2.30 p.m. in Conference Room B. I suggest we devote the meeting to a discussion of our work programme, how we should tackle it and in what timescale, with a view to taking decisions and commissioning initial work.

2. Our starting points are the terms of reference of the Group (copy enclosed) and the Foreign and Commonwealth Secretary's statement to the House of Commons Select Committee on Foreign Affairs on 14 June, as follows:

"But the alternative last resort situation of events overwhelming the people of Hong Kong, then in those circumstances it is I think inescapable that the United Kingdom, with its special responsibility for the territory, would be the country to which they would look for treatment as refugees and we would have to try and discharge that responsibility with the help of others."

He repeated this message during his recent visit to Hong Kong.

3. To focus discussion, I enclose an outline of some relevant issues and detailed questions.

R J T McLaren Esq CMG  
Room W.323  
FOREIGN & COMMONWEALTH OFFICE



SECRET

4. I am sending copies of this letter to Messrs Morris and Freece (Home Office), Nicolas Bevan (MoD), Anthea Case (Treasury) and Gavin Watson (DoE). I am also sending a copy to Sir Alan Bailey with the request that he kindly pass this on his nominated representative.

+ P. Kitchen Otp  
19/7

Yours ever,

Len

L V Appleyard

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ANNEX

(a) Scenarios

In what circumstances might an exodus occur? Timing is plainly important; the situations pre- and post-July 1997 will be quite different. How would we identify the start of such an exodus? The Chinese Government could support, oppose or merely acquiesce. Time available for evacuation (if that were contemplated) could vary considerably. What other important variables are there? Can we define a small number of scenarios to cover all likely eventualities?

(b) External consultation

What consultation should there be with other Governments beforehand? With which Governments, and when? Should commitments be sought beforehand, and if so what? How far should the Hong Kong Government be involved in our planning?

(c) Activation of the arrangements

Will it be obvious when the time has come to activate the arrangements, or should criteria be defined in advance? What arrangements exist now for monitoring emigration from Hong Kong? Should they be reinforced?

(d) Numbers

It has been suggested that even in extreme circumstances the number who could physically leave Hong Kong would be severely limited, and nothing like the total population of 5.7 million. In an acute crisis there would presumably be self-emigration by any means available, including boats (cf the Vietnamese boat people). Should Government-assisted evacuation be offered, and if so for what number could it realistically be planned? Should it be offered on a first-come-first-served basis, or for pre-arranged categories or individuals, or a combination of these?

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(e) Transport

What resources would be available - warships and military aircraft, merchant shipping and civil aircraft etc? Should formal steps to earmark them be taken in advance? Should we assume a UK operation only or might other countries take part, and if so which countries? Should refugees be transported to their final destinations, or to intermediate destinations in the region in the first instance?

(f) Resettlement destinations

In which other countries besides the UK might the refugees be resettled, and in what sort of numbers? What prior consideration should we give to the UK contribution to the overall resettlement total? Should this be part of the consultations with other governments beforehand (see (b) above)?

(g) Reception and resettlement arrangements in the UK

What temporary reception facilities would be required and how could they be supplied? What are the implications of permanent settlement in terms of jobs, housing, education, health care, social security etc?

(h) Service assistance

What help could the Services provide under the various headings?

(i) Resources

What would be the cost and Civil Service manpower implications? What wider economic effects can be identified?

(j) Publicity

How far if at all should our contingency plans be publicly known beforehand? What should be our public line (i) beforehand, and (ii) when the crisis broke?





*Mr Appleyard*

## CABINET OFFICE

70 Whitehall London SW1A 2AS

01-270 0101

*c - Mr Weston*

*c. Mr Reeves*

*From the Secretary of the Cabinet and Head of the Home Civil Service*  
Sir Robin Butler KCB CVO

*Ref. A089/1829*

7 July 1989

*My dear Patrick*

Hong Kong : Contingency Planning

At her meeting with Ministers and the Governor of Hong Kong on 8 June, the Prime Minister said that work should be put in hand, on a highly restricted basis, on longer term contingency plans on a worst case assumption of serious problems nearer to 1997 which might lead to a major exodus from Hong Kong.

It had been suggested, and I agree, that this work could best be carried forward under Cabinet Office auspices. I am therefore creating the Official Group On Contingency Planning For Hong Kong (MISC 140) with terms of reference 'to devise plans to deal with the contingency of a large scale exodus from Hong Kong in the period up to July 1997 or thereafter'.

The Group will be chaired by Len Appleyard, and I propose that its membership should include representatives of your Department, the Treasury, the Home Office, the Ministry of

/Defence, the Department of

Sir Patrick Wright GCMG  
Foreign and Commonwealth Office

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Defence, the Department of the Environment and the Department of Transport (and the Cabinet Office).

I should therefore be grateful if you, and Peter Middleton, Clive Whitmore, Michael Quinlan, Terry Heiser and Alan Bailey (to whom I am copying this letter) could arrange for Len Appleyard to have the names of your representatives. Other Departments will be invited to attend as necessary.

Yours ever,

Robin.

CONFIDENTIAL



*Mr Reeves*

10

SECRET

T0595

MR APPLEYARD

cc Mr Manning  
Mr Mann

MISC 140

As discussed yesterday, I offer the attached Note by the Chairman for your consideration.

*W D Reeves*

W D REEVES

11 July 1989

Att

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THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

DRAFT

MISC 140(89)2

COPY NO

July 1989

CABINET

OFFICIAL GROUP ON CONTINGENCY PLANNING FOR HONG KONG

-----  
Note by the Chairman  
-----

The first meeting of the Group has been arranged for [ ] July. I should like to devote this first meeting to a free-ranging discussion of our work programme, how we should tackle it and in what timescale, with a view to taking decisions and commissioning initial work at a subsequent meeting before the end of the month. Our starting point is the Foreign and Commonwealth Secretary's statement to the House of Commons Select Committee on Foreign Affairs on 14 June, as follows:

"But the alternative last resort situation of events overwhelming the people of Hong Kong, then in those circumstances it is I think inescapable that the United Kingdom, with its special responsibility for the territory, would be the country to which they would look for treatment as refugees and we would have to try and discharge that responsibility with the help of others."

He repeated this message during his recent visit to Hong Kong.

2. To start the ball rolling, I set out below a number of issues and detailed questions which occur to me as relevant to our task.

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(a) Scenarios

In what circumstances might an exodus occur?

Timing is plainly important; the situations pre- and post-July 1997 will be quite different, and the level of Armed Forces presence in Hong Kong will vary greatly within the earlier period. The Chinese Government could support, oppose or merely acquiesce. Time available for evacuation (if that were part of the plan) could vary considerably. What other important variables are there? Can we define a small number of scenarios to cover all likely eventualities?

b. Activation of the plan

Will it be obvious when the time has come to activate the plan, or should criteria be defined in advance? What arrangements exist now for monitoring emigration from Hong Kong? Should they be reinforced?

c. Numbers

It has been suggested that even in extreme circumstances the number who could physically leave Hong Kong would be severely limited, and nothing like the total population of 5.7 million. In an acute crisis there would presumably be self-emigration by any means available, including boats (cf the Vietnamese boat people). Should Government-assisted evacuation be offered, and if so for what number could it realistically be planned? Should it be offered on a first-

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come-first-served basis, or for pre-arranged categories or individuals, or a combination of these?

(d) Transport

What resources would be available - warships and military aircraft, merchant shipping and civil aircraft etc? Should formal steps to earmark them be taken in advance? Should we assume a UK operation only or might other countries take part, and if so which countries? Should refugees be transported to their final destinations, or to intermediate destinations in the region in the first instance?

(e) Resettlement destinations

In which other countries besides the UK might the refugees be resettled, and in what sort of numbers?

(f) Immigration to the UK

Should the UK be prepared to make an open-ended commitment as a refuge of last resort, or should limits be placed - numerically, by category or a combination? What should be offered to immigrants - right of temporary abode, indefinite leave to remain, full British citizenship? At what point should the UK commitment be announced? (The point has been made that if the UK publicly acknowledges an obligation too clearly or too soon other countries will put their feet up).

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(g) Reception and resettlement arrangements in the UK

What temporary reception facilities would be required and how could they be supplied? What are the implications of permanent settlement in terms of jobs, housing, education, health care, social security etc?

(h) Service assistance

What help could the Services provide under the various headings?

(i) Resources

What would be the cost and Civil Service manpower implications? What wider economic effects can be identified?

(j) External consultation

What consultation should there be with other Governments beforehand? With which Governments, and when? Should commitments be sought beforehand, and if so what? How far should the Hong Kong Government be involved in our planning?

(k) Publicity

How far if at all should our contingency plans be publicly known beforehand? What should be our public line (i) beforehand, and (ii) when the crisis broke?

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3. Others will no doubt be able to add to the list. I look forward to our discussion.

Signed: L V Appleyard

Cabinet Office

July 1989

SECRET





cc Mr Weston/Mr Appleyard

*Mr Reeves*

9

CABINET OFFICE

70 Whitehall London SW1A 2AS Telephone 01-270 0050

CONFIDENTIAL

T0593

10 July 1989

R M Morris Esq  
Home Office  
Lunar House  
40 Wellesley Road  
Croydon CR9 2BY

*Don Bob*

HONG KONG: RIGHT OF ABODE

You may remember that we spoke over the telephone a couple of weeks ago about the rights of settlement in other EC countries which would be enjoyed by those Hong Kong people who were admitted for settlement to the UK. I understood you to say that the British citizenship route, but not the entry certificate route, would permit settlement in other EC countries.

2. Against that background I was interested to see the article in yesterday's Sunday Times which quotes the Foreign Secretary on this issue (see extract attached). Since this point is plainly going to come up again and again, I think it would be helpful if you could circulate for the record a statement of the rights of settlement within the EC which would be enjoyed by immigrants from Hong Kong under present EC rules. Would you be willing to do this?

3. I am copying this to Robin McLaren.

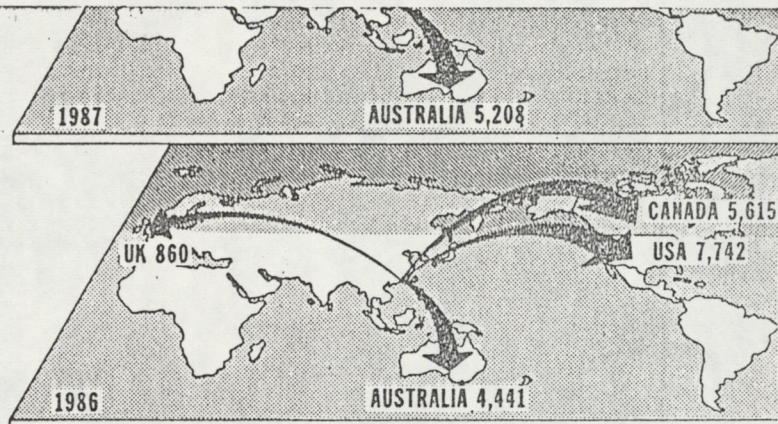
*Yours etc*  
*Bill*

W D REEVES

Enc:

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\*The figure for 1989 is

● Hong Kong people want the right to leave — the exodus (above) is already four times greater than in 1986

## Left stranded by the British government

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urged Britain to take a responsible attitude towards the colony's future.

"It's understandable that Hong Kong people do not fully understand the quelling of the counter-revolutionary rebellion," an official spokesman said on television. "When they understand the true situation, the misunderstanding will be eliminated."

He said China would not promote socialism in Hong Kong, but warned Hong Kong not to "interfere with or try to change the socialist system" on the mainland.

"What is even more impermissible is for Hong Kong to be used as a base to subvert the government of the People's Republic of China," he said.

British officials will be anxious to debrief the Hong Kong delegation on their return from Peking. Ministers are still unsure what happened inside the Peking power structure during the Tiananmen Square sit-in by thousands of pro-democracy Chinese students.

Questions about Britain's contingency plans in the event of an Armageddon meet a bland response. Howe has already "alerted" European Community leaders to the Hong Kong

problem and stressed the need for the community "to rally round".

But if the PLA seizes control of Hong Kong after 1997, ministers accept there is little anyone could do to help those trapped inside.

BRITISH policy is focused on buttressing Hong Kong's position in the run-up to 1997, short of giving its people full British passports.

A bill of rights will be introduced, steps towards full local democracy in preparation for Chinese sovereignty will be speeded up, and fresh assurances will be sought on the Basic Law, especially on China's right to intervene in the colony.

Ministers are likely to come under fresh pressure, however, from MPs on the foreign affairs committee, who are expected to reconsider a move proposed by Ted Rowlands, a former Labour Foreign Office minister, to push for full EC rights of abode for Hong Kong's population.

These have already been granted to Chinese residents of the Portuguese enclave of Macao, near Hong Kong, and David Howell, the committee's Tory chair-

man, wrote in the Asian Wall Street Journal yesterday that Rowland's idea was "alive and fully capable of development and refinement if wise minds in Hong Kong can get together with British policy-makers instead of hurling abuse".

Howe still has to be convinced. He said in Hong Kong that EC citizens had no right of residence in every EC country. "Work seekers cannot stay in another country if they do not find work," he commented. Nor were there automatic rights of settlement in EC countries for students and pensioners.

All the same, Howe will raise Hong Kong again at this week's Western economic summit in Paris.

NO hard offers of help will be sought at this stage. The difficulty of finding homes for the Vietnamese boat people, who have made Hong Kong their target, has shown how hard it is to resettle large refugee populations in a world governed by immigration restrictions.

Britain's resistance to Hong Kong immigration pressure has so far been as tight as Home Office officials can make it. When Sir David Ford, Hong

Kong's chief secretary, came to London recently, he noted that 487 of 504 applications for full British citizenship by Hong Kong people had been refused in spite of their special claim based on service to the Crown or British interests generally.

This hardline policy by Douglas Hurd, the home secretary, is set to become more flexible after instructions from 10 Downing Street. The word has gone out that key people in Hong Kong's public service, security forces and private sector must all be reassured that Britain will take them in if they seek asylum.

Hong Kong professionals are already shifting their allegiances, and not to Britain. France has handed French passports to key executives in French-owned Hong Kong companies. Qantas, the Australian airline, is wooing Hong Kong airport workers with the prospect of passports and a life down-under. Singapore is said to be willing to take large numbers.

Hong Kong bitterness, meanwhile, is mounting at British intransigence. "People here feel Britain's stance on nationality is morally indefensible," Dame Lydia Dunn, Hong Kong's most prominent Chinese leader, told visiting MPs before the massacre.

"Britain must make people here believe that their future is secure because Britain is determined

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## CABINET OFFICE

70 Whitehall London SW1A 2AS

01-270 0101

c - Mr Weston

*From the Secretary of the Cabinet and Head of the Home Civil Service*

Sir Robin Butler KCB CVO

Ref. A089/1829

7 July 1989

*My dear Patrick,*

### Hong Kong : Contingency Planning

At her meeting with Ministers and the Governor of Hong Kong on 8 June, the Prime Minister said that work should be put in hand, on a highly restricted basis, on longer term contingency plans on a worst case assumption of serious problems nearer to 1997 which might lead to a major exodus from Hong Kong.

It had been suggested, and I agree, that this work could best be carried forward under Cabinet Office auspices. I am therefore creating the Official Group On Contingency Planning For Hong Kong (MISC 140) with terms of reference 'to devise plans to deal with the contingency of a large scale exodus from Hong Kong in the period up to July 1997 or thereafter'.

The Group will be chaired by Len Appleyard, and I propose that its membership should include representatives of your Department, the Treasury, the Home Office, the Ministry of

/Defence, the Department of

Sir Patrick Wright GCMG  
Foreign and Commonwealth Office

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Defence, the Department of the Environment and the Department of Transport (and the Cabinet Office).

I should therefore be grateful if you, and Peter Middleton, Clive Whitmore, Michael Quinlan, Terry Heiser and Alan Bailey (to whom I am copying this letter) could arrange for Len Appleyard to have the names of your representatives. Other Departments will be invited to attend as necessary.

Yours ever,

Robin.

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Ref. A089/1823

MR ROBERTSON

*W. Hall* ① Mrs Cohen - for information  
② Registry

I attach the composition and terms of reference for MISC 140 which I should be grateful if you would arrange to have circulated.

*Trevor Woolley*

TREVOR WOOLLEY

6 July 1989



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OFFICIAL GROUP ON CONTINGENCY PLANNING FOR HONG KONG

MISC 140

A Group on Contingency Planning for Hong Kong has been set up with the following Terms of Reference and Composition.

Terms of Reference

*To devise plans to deal with the contingency of a large-scale exodus from Hong Kong in the period up to July 1997 or thereafter.*

Composition

Mr L V Appleyard, Cabinet Office (Chairman)

Representatives of:

Foreign and Commonwealth Office

Treasury

Home Office

Ministry of Defence

Department of the Environment

Department of Transport

Cabinet Office

Secretariat: Mr D G Manning  
Mr B R Mann

Other Departments will be invited to attend as necessary.

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Foreign and Commonwealth Office

London SW1A 2AH

5 July 1989

W D Reeves Esq  
Cabinet Office  
70 Whitehall  
LONDON SW1A 2AS

*Dear Bill,*

HONG KONG : CONTINGENCY PLANNING

1. My apologies for failing to reply to your letter of 28 June before I left for Hong Kong with the Foreign Secretary.
2. On my return, I have seen Anthony Langdon's response of 3 July. I agree with him that it would be best to have rather shorter and more general terms of reference, at any rate at this stage. We would be content with something along the lines put forward by Anthony Langdon but suggest that his proposed wording might be revised to begin "To review the planning required to anticipate and deal with ...".
3. We agree with your choice of Departments - with, of course, the addition of the Home Office.

*Yours ever,*

*RJTM*

R J T McLaren

Copies to:-

A J Langdon Esq, Home Office, Queen Anne's Gate, LONDON SW1H 9AT;  
R M Morris Esq, Home Office.



2

CABINET OFFICE	
A	7364
4 JUL 1989	
FILING INSTRUCTIONS	
FILE No. ....	

I am content and should be grateful for a draft letter but would appreciate it if Mr. Weston can get HCO FCO support for the proposed terms of reference & membership before the letter is sent. If you agree, I shall let you have a draft letter to the Prime Sec of the Dep't concerned inviting nominations.

B.0147

SIR ROBIN BUTLER before the letter is sent. FERB 6.7.

5  
4/7

# HONG KONG: CONTINGENCY PLANNING

At her meeting with Ministers and the Governor of Hong Kong on 8 June the Prime Minister said that work should be put in hand, on a highly restricted basis, on longer term contingency plans on a worst case assumption of serious problems nearer to 1997 which might lead to a major exodus from Hong Kong. The Home Office and the FCO have suggested that this work should be carried forward under Cabinet Office auspices, which seems right.

2. This suggests the need for a new Official Group. Suggested composition and terms of reference are attached. I have accepted a Home Office suggestion that the terms of reference should not specify the main subsets of the task (arrangements for international co-operation, policy regarding admission to the UK, reception and resettlement arrangements, etc), but not their further suggestion that the remit should be "To review the planning required to deal with the development of a large-scale exodus from Hong Kong, and to report to Ministers". The Home Office argue that this would enable Ministers to be given a general appraisal of the planning problem in the first instance, on the basis of which further work would be commissioned. However, given the clarity of the Prime Minister's instruction I see no point in adopting what would in effect be interim terms of reference which would have to be amended later when substantive planning began.

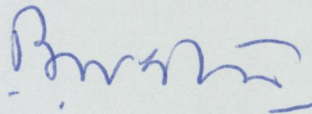


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3. I propose that my successor chair the Group, initially at least, with Mr Reeves a full member and available to take the chair if required when the Group settles down to a working routine. The proposed Departmental representation, with which the Home Office agree, matches the requirement for a highly restricted basis of consultation. In practice DEM, DES and DSS would need to be brought in on occasion.

4. FCO officials were given an opportunity to comment on the terms of reference and composition of the Group but were unable to do so before their departure for Hong Kong with the Foreign Secretary. I am reluctant to let the matter hang fire any longer, not least because of the Foreign Secretary's statement in Hong Kong, reported in today's press, that work on planning for an extreme situation has already begun! But I do not think the terms of reference will cause them problems.

5. I understand from the FCO that Sir Geoffrey Howe has a bilateral with Mr Hurd tomorrow at 8.45 a.m. and with the Prime Minister at 5.30 p.m. on Thursday; and that a debate in the House is planned for 10 July.



P J Weston

4 July 1889



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OFFICIAL GROUP ON CONTINGENCY PLANNING FOR HONG KONG

MISC 140

A Group on Contingency Planning for Hong Kong has been set up with the following Terms of Reference and Composition.

Terms of Reference

*To devise plans to deal with the contingency of a large-scale exodus from Hong Kong in the period up to July 1997 or thereafter.*

Composition

Mr L V Appleyard, Cabinet Office (Chairman)

Representatives of:

Foreign and Commonwealth Office

Treasury

Home Office

Ministry of Defence

Department of the Environment

Department of Transport

Cabinet Office

Secretariat: Mr D G Manning  
Mr B R Mann

Other Departments will be invited to attend as necessary.

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SECRET

HOME OFFICE  
QUEEN ANNE'S GATE  
LONDON SW1H 9AT



W D Reeves Esq  
Cabinet Office  
70 Whitehall  
London  
SW1A 2AS



3 July 1989

*Dear Mr Reeves,*

HONG KONG : CONTINGENCY PLANNING

I am sorry not to have replied before to your letter of 28 June suggesting the composition and terms of reference of a Cabinet Office-chaired MISC group on this remit.

So far as the composition is concerned we see that the Home Office was omitted from your draft, but presumably that was just a mistake - otherwise we agree with your selection of Departments.

As regards the terms of reference, we wonder if it is really necessary to specify all the main sub-sets of work as you draft. Also, we are not certain whether the remit should be "to devise plans" at this early stage, since so much depends on the scenarios that are envisaged. We would suggest something more general, such as "To review the planning required to deal with the development of a large-scale exodus from Hong Kong, and to report to [Ministers]". That would enable Ministers to be given a general appraisal of the planning problem in the first place, and to commission what further work they wanted from the group in the light of that.

Thank you for giving us the opportunity to comment.

I am copying this to Robin McLaren and Bob Morris.

*Yours sincerely,*

*Barbara Hyle*

RP A J LANGDON

SECRET





3

CABINET OFFICE

70 Whitehall London SW1A 2AS Telephone 01-270 0050

SECRET

T.0584

A J Langdon Esq  
Home Office  
50 Queen Anne's Gate  
LONDON SW1

28 June 1989

Dear Anthony

HONG KONG: CONTINGENCY PLANNING

Thank you for your letter of 27 June. I confirm that the Cabinet Office is content to take the lead on the contingency planning remit. Before taking the matter further internally I would be grateful for any quick comments that you or the FCO may have on the attached draft terms of reference and suggested composition of a new Official Group in the MISC series. Logically the Departments of Employment, Education and Science and Social Security should also be members, but since the intention is to conduct work on a highly restricted basis I think it is better to bring them into the discussions only as and when they are needed.

2. I am copying this to Robin McLaren (FCO) and to Bob Morris. Replies by the weekend would be helpful.

Yours over  
Bill

W D REEVES

SECRET



SECRET

OFFICIAL GROUP ON CONTINGENCY PLANNING FOR HONG KONG

MISC [140]

[The Prime Minister has agreed that] a Group on Contingency Planning for Hong Kong should be set up with the following Terms of Reference and Composition.

Terms of Reference

To devise plans to deal with the contingency of a large-scale exodus from Hong Kong in the period up to July 1997, to include: arrangements for identifying the onset of such an exodus; arrangements for international co-operation to receive those fleeing from Hong Kong; policy regarding admission to the United Kingdom of a proportion of those fleeing; transport arrangements; and reception and resettlement arrangements for those accepted into the United Kingdom.

Composition

[ ], Cabinet Office (Chairman)

Representatives of:

Foreign and Commonwealth Office

Treasury

Ministry of Defence

Department of the Environment

Department of Transport

Secretariat: [ ], Cabinet Office]

Other Departments will be consulted as necessary.

*Home office!*

SECRET



# Cabinet / Ministerial Group Document

The document listed above, which was enclosed on this file, has been removed and destroyed. This document was a copy, and the original will be found in CAB 134/4160

Date 10/02/2020

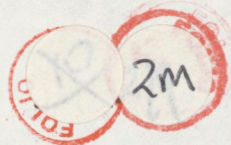
## CAB Records Team



CONFIDENTIAL

Harry King Boxer

MI Manning



Following MSC 140 yesterday, Peter Vries (HO) put me  
on to the attached paper of 1977 vintage.  
I have not had time to study it, but  
at first glance it seems potentially useful.  
If it led to any firm conclusion it  
might be a piece of history with MSC  
140 and have to take account of,  
whether or not in the end ~~the~~ the solution  
seemed appropriate to the problem we are  
considering.

Vries told me that there was further  
discussion towards the end of 1984,  
involving the VSU in the Home Office and  
also MG division of (I suppose) the then  
CSD, now OMCS. It might be worth  
checking with Spencer whether they can throw  
any light on this.  
3/8



HORSE GUARDS ROAD  
LONDON  
SW1P 3AL

CBX/GTN Code: 270  
(use local prefix if required)  
Exchange: 01-270 3000

Ext Room

## **MACHINERY OF GOVERNMENT - MG**

Machinery of Government Division provides advice on questions concerning the allocation of functions between departments; non-departmental public bodies; and relations between Government and Parliament, especially Departmental Select Committees and the Parliamentary Commissioner for Administration. The division also provides central guidance on administrative questions.

	Grade 5	Mr J P Spencer	270 6140	61E/3
	SPS	Mrs S Bulstrode	270 6143	61C/3
Organisation questions other than the internal organisation of departments, in particular the allocation of functions between departments; transfers of functions; and the application of the Ministers of the Crown Act. Application of Ministerial and Other Salaries Act. Copyright licensing. Editorial responsibility for "List of Ministerial Responsibilities".	Grade 7	Miss J M Harper	270 6153	132C/3
	EO	Miss E J Pitcher	270 6147	61D/3
Non-departmental public bodies (NDPBs). Co-ordination of policy reviews and financial management surveys of NDPBs, including OMCS' own NDPBs. Editorial responsibility for "Public Bodies" and "Non-departmental Public Bodies: A Guide for Departments". Questions of Civil Service and Crown status. Disqualification for membership of the House of Commons under the 1975 Act. MG Information Manager.	Grade 7	Mr R W MacLachlan	270 6152	132A/3
	EO	Miss E J Pitcher	270 6147	61D/3
Questions on the relationship between Government and Parliament, including Parliamentary Select Committees and the Parliamentary Commissioner for Administration. Open Government. Advice on procedures for bills, statutory instruments, production of command papers, consultative papers, etc.	Grade 7	Miss J Darrell	270 6151	131/3
	Grade 7	Mrs B Phillips	270 6442	131/3
	HEO(D)	Mr S Y MacDonald	270 6145	131/3
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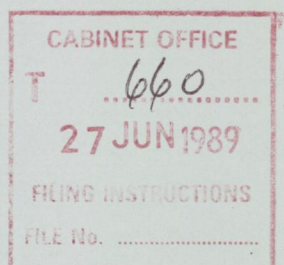
SECRET AND PERSONAL

HOME OFFICE  
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2516.

W D Reeves Esq  
Cabinet Office  
70 Whitehall  
London SW1



27 June 1989

Dear Ben

HONG KONG : CONTINGENCY PLANNING

We spoke last week about the best way to take forward the Prime Minister's instruction that longer term contingency planning should be put in hand on a highly restricted basis, as recorded in Charles Powell's letter to Stephen Wall of 8 June. As I explained, we in the Home Office had done some preliminary work on this, but had soon come to the point where the exercise would require considerable inter-Departmental co-ordination. We and the FCO were therefore of the view that this contingency planning remit would need to be taken forward under Cabinet Office auspices, and I think you accepted this.

The purpose of this letter is simply to confirm with you, before the OD (K) meeting on Thursday, that we can now look to the Cabinet Office to take over general responsibility for this contingency planning. I am also enclosing, in case it is useful, an *aide memoire* on this, which we shall probably include with the Home Secretary's briefing for OD (K).

I am sending copies of this letter and enclosure to Robin McLaren (FCO) and to Bob Morris and Richard Fries here in the Home Office.

Yours ever  
Anthony

A J LANGDON

SECRET AND PERSONAL



SECRET

CONTINGENCY PLANNING

It will be necessary to set in hand contingency planning to prepare for the possibility of an exodus from Hong Kong at some point before 1997. This will need to cover:

- (1) arrangements to assess the signs of an exodus;
- (2) the handling of an exodus, covering questions of transportation, initial overseas holding centres and international co-operation for settlement destinations;
- (3) criteria and procedures for admission of a share to be accepted by UK;
- (4) reception and resettlement arrangements for those accepted into UK.

2. FCO have the lead interest in (1) and (2); Home Office on (3) and (4). Work will proceed in developing a framework for contingency planning under these heads. But they will need to be co-ordinated under a range of overall scenarios, and a number of Departments will have to be drawn in, particularly in relation to resettlement plans in the UK. The work will therefore proceed under the auspices of the Cabinet Office.

SECRET



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# Second Report of the Foreign Affairs Committee

Session 1988–89

**HONG KONG**

Observations by the Government on the Second Report

NOT FOR PUBLICATION  
CLUB TAPES BEFORE 15.30  
ON 23/5/89  
MAY.  
23.5.89



# SECOND REPORT OF THE FOREIGN AFFAIRS COMMITTEE

SESSION 1988-89

## HONG KONG

### Observations by the Government on the Second Report

1. The Government made their initial observations on the report of the Foreign Affairs Committee (HC 281-1 of 28 June 1989) in their reply of 1 December 1989 (Cm 927). A number of the detailed recommendations in the Committee's report were dealt with in this reply. But there were a number of other recommendations which the Government's reply could not cover either because these questions remained to be decided in the context of the drafting of the Basic Law or because decisions had not been taken at that time as in the case of nationality and constitutional development. The Foreign and Commonwealth Secretary subsequently announced decisions on these matters on 20 December 1989 and 16 February 1990 respectively.

2. This paper contains the Government's observations on those points in the Committee's report which were left outstanding in their earlier reply because decisions had not been taken, namely:

- (i) The Joint Declaration and the Basic Law;
- (ii) Actions within Hong Kong;
- (iii) British Policy and Actions;
- (iv) Vietnamese Boat People.

### The Joint Declaration and the Basic Law

#### Relationship between the Basic Law and the Joint Declaration

3. The Committee took the view that the Basic Law should be the "son" of the Joint Declaration rather than of the Chinese Constitution (paragraph 2.7). As the Committee recognises, the Basic Law is a law of the People's Republic of China (PRC). Specific provision for such a law to be enacted by the National People's Congress is made in Article 31 of the Chinese Constitution. However the provisions of the Basic Law are clearly derived from the Joint Declaration. The Joint Declaration provides that the basic policies of the PRC regarding Hong Kong as stated in the Joint Declaration will be stipulated in the Basic Law. The Preamble to the Basic Law (which was adopted by the National People's Congress on 4 April 1990 and promulgated on the same day) in turn states that the basic policies of the PRC regarding Hong Kong have been elaborated in the Joint Declaration and that the Basic Law is enacted in order to ensure the implementation of those basic policies. Thus there is a clear link between the obligations assumed by the PRC in the Joint Declaration and the Basic Law. The Government's concern throughout the drafting process was to ensure consistency between the Basic Law and the provisions of the Joint Declaration. On the whole they are satisfied that this has been achieved. But there are some provisions which they would have preferred to have seen drafted differently.

4. The Committee drew attention to doubts whether the provisions of Article 31 of the Chinese constitution override other articles in the Constitution and took the view that the Preamble of the Basic Law should set out clearly which articles of the Chinese Constitution would apply to the Hong Kong Special Administrative Region (SAR). The Hong Kong SAR will be an integral, if special, part of the unitary state of the PRC. Certain provisions of the Chinese Constitution will therefore apply in or in relation to Hong Kong, even though they may not have direct effect as law. It would not be realistic to dismiss all but Article 31 as having no relevance. But Article 11 of the Basic Law makes clear that the systems and policies practised in the SAR "including the social and economic systems, the system for safeguarding the fundamental rights of its residents, the executive, legislative and judicial systems" will be based on the Basic Law; and Article 5 specifically states that the socialist system and policies shall not be practised in Hong Kong but that the capitalist system and way of life shall remain unchanged for 50 years. The Government would further draw the Committee's attention to a decision also adopted on 4 April which affirms the view of the National People's Congress that Article 31 of the Chinese Constitution does provide sufficient authority to enable the National People's Congress to prescribe different systems in Hong Kong from those applicable elsewhere in the PRC.



### **Interpretation of the Basic Law**

5. The Committee expressed the view that Hong Kong people would only have confidence in the maintenance of the laws existing before the creation of the Hong Kong SAR if there was a Joint Constitutional Court situated in Hong Kong to interpret Hong Kong laws (paragraph 2.8). This idea was indeed canvassed but did not find favour with the Basic Law Drafting Committee. The Basic Law is not only a law for Hong Kong but is also a law for the PRC and under the Chinese Constitution the power to interpret such laws is vested in the Standing Committee of the National People's Congress. However, a wide power of interpretation is vested in the SAR courts and, in those cases where the Standing Committee of the National People's Congress exercises its powers of interpretation, Article 158 of the Basic Law requires it first to consult the Hong Kong SAR's Basic Law Committee. Half the members of this Committee will come from Hong Kong.

### **Human Rights**

6. The Committee recommended that the Hong Kong Government should introduce a Bill of Rights as soon as possible (paragraph 2.11). The Hong Kong Government have now done so. A draft Bill of Rights was published on 16 March 1990 for a two month period of public consultation. The Hong Kong Government intend to introduce legislation into the Legislative Council by July 1990.

7. The Bill is designed to give effect in local law to the relevant provisions of the International Covenant on Civil and Political Rights (ICCPR) as applied to Hong Kong. This would enable those who claim that their civil or political rights as defined in the relevant provisions of the Covenant have been violated to seek redress in the local courts. Consideration is being given to ways of ensuring that, during the period up to 1 July 1997, the rights and freedoms conferred by the Bill are not restricted in a manner inconsistent with the Covenant. After 1997, Article 39 of the Basic Law will itself restrict the powers of the SAR legislature to derogate from the rights and freedoms accorded by the Covenant as applied to Hong Kong. This Article provides that the provisions of the Covenant as applied to Hong Kong "shall remain in force and shall be implemented through the laws of the Hong Kong Special Administrative Region"; and that the freedoms so enjoyed shall not be restricted so as to contravene that provision.

8. The Committee also recommended that the Hong Kong Government should review existing laws to identify areas in possible breach of the international covenants. Such a review is in hand. The present intention is that there should be a freeze period following the enactment of the Bill of Rights during which any provision in an existing law which plainly conflicts with the ICCPR may be repealed or amended.

### **Article 18 of the Basic Law**

9. The Committee took the view that Article 18 of the draft Basic Law needed revision in order to limit the powers of the central government to interfere in the maintenance of public order in the Hong Kong SAR only to a time of war (paragraph 2.12). In this respect, the final version of Basic Law is an improvement on the second draft. Article 18 has been amended to provide for the Central Authorities to intervene by applying relevant national laws in a state of emergency other than war only if the turmoil is both beyond the control of the Government of the SAR and endangers national unity or national security.

### **Amendment of the Basic Law**

10. The Committee took the view that all proposed amendments to the Basic Law should have the agreement of both the Standing Committee of the National People's Congress and of the Legislative Council and Chief Executive of the Hong Kong SAR before being submitted to the National People's Congress. The Committee also took the view that the final paragraph of Article 158 of the draft Basic Law (Article 159 in the final version) should be amended so as to make clear that the reference in that Article to "the established basic policies of the PRC regarding Hong Kong" are those set out in the Joint Declaration (paragraph 2.14). The enacted text of the Basic Law does not contain such a provision though proposals for amendment which emanate from the SAR are required to have the prior consent of two thirds of the SAR's deputies to the National People's Congress, two thirds of the members of the Legislative Council and the Chief Executive. No such prior consent is required for proposals for amendments which emanate from the Standing Committee or the State Council. However, the Basic Law does provide, as regards all



proposals for amendment, that before any bill is put on the agenda of the National People's Congress, the Basic Law Committee to the SAR (half of the members of which, as noted in paragraph 5 above, are to come from Hong Kong) shall study it and submit its views. The reference to "basic policies" in Article 159 reflects the reference in the Preamble where it is made clear that those are the policies elaborated in the Joint Declaration.

### **Actions within Hong Kong**

#### **Constitutional Development**

11. The Committee recommended that full democracy should be introduced before 1997 and that, consistent with maintaining a necessary degree of continuity, should be introduced as soon as possible (paragraph 3.10). At the same time the Committee also took the view that Hong Kong people must be allowed to decide on their own system of government before as well as after 1997.

12. The Government's aim throughout has been to establish in Hong Kong before 1997 a system of government which includes a substantial element of democracy *and* which can endure and further develop after 1997. When the Joint Declaration was signed in 1984, there was no elected element of any kind in the legislature. Provision for 24 members to be indirectly elected from local government bodies and functional constituencies was made in 1985. In February 1988, the Hong Kong Government announced that a directly elected element would be introduced for the first time in 1991 when 10 seats would be directly elected. It became clear subsequently that people in Hong Kong favoured a more rapid rate of progress as regards directly elected seats, while continuing to attach importance to a system which could endure and develop after 1997. The consensus which OMELCO reached in July 1989 about the right pace of constitutional development up to 1997 was in fact much less ambitious than the Committee's recommendation.

13. In order to achieve steady progression up to and beyond 1997, it was essential that the system introduced in 1991 should be developed and carried forward in the arrangements set out in the Basic Law. With that objective in mind, the Government entered into a series of tough discussions with the Chinese authorities about Hong Kong's future political development, stressing the importance of a more rapid process of democratisation than was envisaged in the second draft of the Basic Law and the need to ensure that the political system as a whole was one which Hong Kong people would find acceptable. On 16 February 1990 the Foreign and Commonwealth Secretary announced the Government's intention to introduce 18 directly elected seats in 1991 and at least 20 in 1995. This is a substantially greater first step towards full democracy in Hong Kong than was planned two years ago. It is two seats less than the proposals put forward by OMELCO in July 1989 but significantly more than the 10 seats which were originally envisaged in 1988. As a result of the Government's representations and those of people in Hong Kong to the Chinese authorities, the final version of the Basic Law provides further progression from 1997 onwards, rising to 24 seats in 1999 and 30 seats (fifty per cent of the legislature—the remainder being indirectly elected members) in 2003, with the possibility that full direct elections could be introduced in 2007. The Government hope that in time the Chinese Government will agree to accelerate the pace of democratisation.

14. Most people in Hong Kong welcome the fact that a clear direction has now been set and that a major uncertainty for the future of the territory has been removed. This reaction was reflected in the positive and forward-looking statement issued by OMELCO on 16 February. The community in Hong Kong recognise that their task now is to work together to make a success of the first direct elections in 1991 and to demonstrate that Hong Kong people can be trusted to exercise their responsibilities sensibly. This is seen as the best way of persuading the Chinese authorities that a faster pace of democratisation is both desirable and manageable.

#### **Green Paper on Electoral Law**

15. The Committee recommended that a Green Paper should be published as soon as possible to canvas views on an electoral law for the elections in 1991 (paragraph 3.12). Details of the proposed arrangements for the 1991 elections were announced by the Chief Secretary in Hong Kong on 21 March 1990. The Legislative Council will have an opportunity to debate these proposals when draft legislation is introduced.



16. The Committee took the view that the number of functional constituencies should not be increased. But the Basic Law provides for 50 per cent of the seats in the legislature to be returned by functional constituencies in the first three terms of the legislature up to 2007. It therefore makes sense to move gradually towards that proportion. Moreover functional constituencies have proved successful in Hong Kong. For these reasons it is proposed that the number of functional constituencies should be increased from 14 to 21 in 1991.

### **The Chief Executive**

17. The Committee recommended that the first Chief Executive should be elected by a democratically constituted Electoral College and that the second and third Chief Executives should be elected by universal suffrage (paragraph 3.18). Article 45 of the Basic Law provides that the ultimate aim is to select the Chief Executive through universal suffrage. The Government welcome this. The machinery for the selection of the first Chief Executive is one of the points they intend to discuss with the Chinese Government.

### **Relationship between the Executive and the Legislature**

18. The Committee took the view that the Legislative Council should be sovereign and that the Chief Executive should resign if there is an irreconcilable conflict (paragraph 3.22). Article 73(9) of the Basic Law provides for a procedure whereby the legislature can impeach the Chief Executive if he or she refuses to resign when charges of a serious breach of law or dereliction of duty have been found substantiated by an investigation committee chaired by the Chief Justice of the Court of Final Appeal. Other provisions of the Basic Law, while making provision for the accountability of the executive to the legislature (Article 64) establish a separation of powers between them. Although the Chief Executive may dissolve the legislature once during each of his terms of office if there is disagreement between them as to certain Bills (Article 50), he is required to resign if the same disagreement persists after a new legislature is elected (Article 52).

### **British Policy and Actions**

#### **British Interests in Hong Kong**

19. The Government welcome the Committee's analysis of British economic interests in Hong Kong (paragraph 4.3). Britain has an enormous stake in terms of trade, investment and jobs in Hong Kong's continuing success. Britain's visible exports to Hong Kong are worth more than £1 billion a year. In addition, Britain earns over £1 billion every year from invisible exports. British exports to Hong Kong grew by over 10 per cent in the 1980s, compared to growth of only 8.7 per cent for Britain's exports worldwide. Hong Kong is Britain's largest export market in Asia, after Japan and India. More than 1,000 British companies have operations there and produce significant returns for the United Kingdom. Because Hong Kong is one of the world's freest economies, it is difficult to put a precise figure on British investment in the territory. But the total gross stock market value of British-owned, controlled or managed companies has been estimated at some £20 billion.

#### **Nationality**

20. The Government welcome the Committee's analysis under this heading and agree with their recommendation that assurances should be offered to a significant number of Hong Kong BDTCs in key positions (paragraph 4.19). The increasing rate of emigration among key personnel, both in the public and private sectors, is a trend which the Government take very seriously. In the years 1980-86, the average yearly outflow was about 20,000. In 1989 it was 42,000. This year it is expected to be at least 55,000, many of them key professionals. This growing exodus of talented people poses a real threat to Hong Kong's stability and prosperity in the period before 1997. Many of those who are emigrating do so reluctantly, because it is the only means of acquiring the assurance of a foreign passport. Most of them would remain if such an assurance were available without the need to leave Hong Kong.



21. That is why the Foreign and Commonwealth Secretary announced on 20 December 1989 that the Government proposed to introduce legislation to give British citizenship to 50,000 key people and their dependants, without their having to leave the territory in order to qualify. This legislation is designed to anchor people in Hong Kong so that they can continue to make their contribution to the territory's success and prosperity. The British Nationality (Hong Kong) Bill was published on 4 April 1990 and had its second reading on 19 April. Details of how the selection scheme might operate were set out in an Explanatory Note which has also been laid before the House.

22. The reaction in Hong Kong to the Government's nationality package has been generally positive. OMELCO has said publicly that the package will be a helpful contribution towards slowing down the brain drain and have expressed confidence that those who receive passports will have the peace of mind to remain in Hong Kong and contribute to Hong Kong's future. People from the business sector have also said that the scheme will help to anchor key people in Hong Kong. A number of recent surveys by professional bodies in Hong Kong show that the majority of those currently planning to emigrate would stay in Hong Kong if granted British citizenship under the scheme. For example, 85 per cent of chartered surveyors, 88 per cent of government doctors and 80 per cent of civil engineers have said that they would change their plans to leave Hong Kong if granted British citizenship.

23. The Committee recommended that the Government should take the lead at the earliest opportunity in mobilising international support for Hong Kong (paragraph 4.15). The Government have taken every available opportunity to raise this issue with their partners in the European Community and the Commonwealth, with the United States and with a number of other countries. The Government have made clear that Hong Kong is an international centre, with huge international investment and that its major trading partners have a strong interest in its continuing stability and prosperity. Some countries, of their own volition, have already found ways to give Hong Kong people assurances without their having to leave the territory and the Government have encouraged others to do so. Singapore has already introduced a scheme to give permanent residence status to up to 25,000 blue collar workers and their families without requiring them to leave Hong Kong for a number of years. Within the European Community, France, the Federal Republic of Germany, Belgium and Luxembourg are implementing schemes to provide the right of entry to employees of French, German, Belgian and Luxembourg companies and their families. The possibility of new immigration arrangements for Hong Kong is under consideration by the United States Administration and there have been expressions of support in the United States Congress, including a proposal that the immigration quota from Hong Kong should be increased to 20,000 a year and that beneficiaries should be allowed to defer settlement in the United States until the year 2002. Taken together, these measures could add substantially to the impact of the Government's scheme.

24. The Committee recommended that Section 4(5) of the British Nationality Act (BNA) 1981 should be used more generously in the future (paragraph 4.21). But as the Committee themselves pointed out, the then Home Secretary made clear at the time of the introduction of the BNA 1981 that Section 4(5) was intended to be used sparingly. The Government have decided to cater for the needs of public servants and the private sector by means of the British Nationality (Hong Kong) Bill. There is thus no obvious need to make more generous use of Section 4(5) in respect of public servants, although it will still be available for use at the Home Secretary's discretion, in appropriate cases.

25. The Government have accepted the Committee's recommendation that war widows should be given assurances that they can come to Britain at any time (paragraph 4.22). The Home Secretary announced on 19 April 1990, that widows of former servicemen who served in the defence of Hong Kong during the second World War under the Government of Hong Kong, will be admitted to the United Kingdom at any time on the same terms as spouses of people settled here, provided that they are still resident in Hong Kong, have not remarried and do not have citizenship of another country other than China.

26. The Committee took the view that the Government have an obligation to provide British citizenship to non-Chinese British Dependent Territory Citizens (BDTCs) in Hong Kong (paragraph 4.23). The Government considered very carefully whether to make



separate provision for these people in the scheme but decided not to do so. They will be eligible to apply under the scheme and their applications will be considered on their merits. In addition, the Hong Kong (British Nationality) Order 1986 makes provision for children and grandchildren of former BDTCs born after 1997 to acquire British Overseas citizenship if they would otherwise be stateless. As the Committee noted, the Government gave a specific assurance to Parliament in 1986 that if any solely British nationals came under pressure to leave Hong Kong in the future, and had nowhere to go, they would expect the government of the day to consider the case for admitting such people with considerable and particular sympathy. The Government stand by that commitment.

27. The Committee recommended that the immigration rules should be changed so that periods spent by Hong Kong British students studying in the United Kingdom for recognised qualifications at tertiary level or above should count towards "residency" (paragraph 4.24). The Government have interpreted this to mean that such periods of study should lead to settlement in the United Kingdom. Under the immigration rules, students are regarded as coming here for a temporary purpose and admission as a student does not provide an avenue to settlement. The Government see no reason to depart from this principle in the case of students from Hong Kong and therefore do not propose to implement the Committee's recommendation in this regard. It is worth noting, however, that if a person who has been in the United Kingdom as a student achieves settlement by some other means (for example, by marriage) and then applies for citizenship, the period spent here as a student can be counted towards the residence requirement for citizenship.

#### **Vietnamese Boat People**

28. The Government welcome the Committee's analysis of this problem. Since 1975, nearly 170,000 Vietnamese boat people have arrived in Hong Kong. Hong Kong has continued to operate a policy of first asylum. No asylum seekers have ever been turned away. As the Committee rightly states, the Hong Kong Government had no alternative but to introduce a screening policy in June 1988 (paragraph 5.2). The introduction of screening was precipitated by a major new influx of boat people in 1987 and 1988 and by a change in the pattern of arrivals.

29. In 1989 34,000 Vietnamese asylum-seekers arrived in Hong Kong, bringing the total number to over 57,000 by the end of last year. So far this year the number of new arrivals is down on last year's figures although there was an upsurge towards the end of April. Two thirds of this year's new arrivals came from the South of Vietnam, a reversal of the trend in 1989 when the great majority came from the North. About the same proportion are ethnic Chinese. It is still too early to be sure how the rate of arrivals will develop and whether Hong Kong will face an influx on the 1989 scale. But the sharp fall in the total number of arrivals as well as in the proportion coming from the North may suggest that the Government's decision to repatriate a small group of non-volunteers last December (see paragraph 32 below), coupled with the intensive publicity campaigns mounted in recent months in the North of Vietnam, has begun to make a real impact.

30. Good progress has also been made in resettling those with refugee status in accordance with the pledges given at the Geneva Conference in June 1989. More than half of the 13,000 refugees in Hong Kong at that time will have been resettled in the West by June 1990. The Philippines Government have also agreed that refugees from Hong Kong can be transferred to the refugee processing centre at Bataan pending resettlement, thus helping to relieve pressure on accommodation in the territory. If the transfer of refugees to Bataan proceeds smoothly, there is thus every prospect that most, if not all, of those with refugee status will leave Hong Kong by the end of this year.

31. Since the Geneva Conference last June, it has been accepted by the entire international community that all those screened out as non-refugees must return to their country of origin. It was also agreed at the Geneva Conference that in the first instance every effort should be made to encourage voluntary returns; but that if after the passage of a reasonable amount of time the voluntary programme was not making sufficient progress, alternatives would be considered. The Government are doing everything they can to encourage more volunteers to come forward and to speed up the rate of voluntary returns. So far this year the number of volunteers has increased and over 2,200 have returned to



6

Vietnam. During his visit to Vietnam in February, the Minister of State, Mr Francis Maude achieved agreement that from May 1990 around 1,000 volunteers a month would be accepted back, a sufficient rate of flow, if maintained, to clear all the non-refugees in Hong Kong in little over three years. The Government also offered to contribute to the cost of a new reception centre near Hanoi to enable the Vietnamese authorities to reach this target.

32. It has been clear for some time, however, that voluntary returns alone cannot provide a comprehensive solution to the problems in Hong Kong. The latest evidence shows that only about 2 per cent of those screened out as non-refugees have volunteered to return to Vietnam. The Government share the Committee's view that in the absence of significant levels of voluntary repatriation, there is no alternative to the repatriation of those who are screened out (paragraph 5.4). On 12 December 1989, the Foreign and Commonwealth Secretary therefore announced the Government's decision to repatriate 51 Vietnamese boat people who were not refugees, under a bilateral agreement reached with the Vietnamese Government in June 1989 which guaranteed that returnees would not be punished by the Vietnamese authorities. No force was used. Two former Ministers (Lord Ennals and Mr Raison MP) visited Vietnam in January 1990 and confirmed that no force had been used against those returned and that they had not been ill-treated in any way. Discussions are continuing with the Vietnamese Government on the practicalities of non-voluntary repatriation. The agreement of June 1989 remains in force.

33. The Steering Committee of the International Conference on Indo-Chinese Refugees, which reconvened in Geneva in mid-January 1990, narrowly failed to reach agreement on how to deal with those determined not to be refugees following screening. Almost all the participants were prepared to accept that mandatory repatriation could begin from 1 July 1990. In the end consensus was blocked by the United States, which insisted that no one should be returned involuntarily before 1 January 1991 and by the Vietnamese who held out for 1 October 1990. The Government have made clear to the United States Administration that if they continue to oppose involuntary repatriation, Hong Kong and the other places of first asylum would look to the United States to provide an alternative solution. At a regional meeting on the boat people problem in Manila on 17-18 May, first asylum countries were united on the need to implement mandatory repatriation and to bring further pressure to bear on the United States to accept this. The Committee recommended that the Government should press the United States to accept responsibility for the accommodation of those screened out until such time as they are content to accept their repatriation to Vietnam (paragraph 5.6). The Government are doing this, and have made a specific proposal that the United States should provide a regional holding centre, perhaps on Guam or another United States Pacific territory. This proposal carried the support of first asylum countries at the regional meeting in Manila and will be discussed at the next full meeting of the Steering Committee, likely to be before the end of June.

34. The United Nations High Commissioner for Refugees, Mr Stoltenberg, launched a new initiative in mid-March aimed at tackling the root causes of the exodus from Vietnam and increasing the number of voluntary returns. He indicated that UNHCR would be willing to monitor the conditions of all who return to Vietnam, on a good offices and time limited basis, provided there was consensus in support. The Government will continue to work closely with UNHCR for a comprehensive and durable solution. The Government's objective is to ensure that the rate of returns to Vietnam is sustained at 1,000 a month and that if there are fewer than 1,000 volunteers, the difference should be made up by non-volunteers. The Government hope that there will be an international consensus opening the way to UNHCR monitoring the conditions of all who return. The Government are also working closely with UNHCR to limit any shortcomings there may be in the screening process.

35. The Government agree with the Committee that assistance should be given to those who return to Vietnam (paragraph 5.4). Reintegration assistance is already being made available to help returnees settle back into their communities, with volunteers receiving slightly more generous terms. The Government are also considering financial support for NGO activities in areas of Vietnam from which boat people predominantly come. However, programme aid would need to await full acceptance by the Vietnamese authorities of their obligations towards their own people.



36. The Committee recommended that the Government should take vigorous steps to secure a more positive and responsible approach by the Chinese Government to the problem of Vietnamese boat people (paragraph 5.8). The Government have continued to press the Chinese authorities to step up their efforts to prevent asylum seekers transitting China en route to Hong Kong both overland and along the South China coast. The latest evidence suggests that 90 per cent of new arrivals now make most of the journey overland. Information on the routes used is being passed to the Chinese authorities on a regular basis.

37. The Government recognise that the Vietnamese boat people problem has for many years imposed a heavy social and financial burden on Hong Kong. Since the beginning of 1989 the Government have pledged or contributed nearly £37 million towards the boat people problem, either in support of UNHCR operations in Hong Kong or direct to the Hong Kong Government for emergency accommodation.



## Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

CM 927 – Second Report of the Foreign Affairs Committee  
Session 1988-89 Hong Kong Observations by the Government  
Published by HMSO.  
ISBN 0-10-109272-5

Signed M. Ben-Jee Date 10/2/2020

**CAB Records Team**



## Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

CM 1047 – Miscellaneous No. 9 (1990) Annual Report on Hong Kong 1989

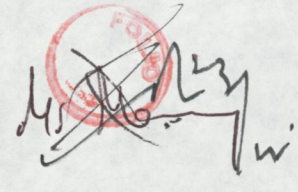
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ISBN 0-10-110472-3

Signed m Benjaice Date 10/02/2020

**CAB Records Team**



  
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BRITISH NATIONALITY (HONG KONG) BILL:  
SELECTION FOR CITIZENSHIP: EXPLANATORY NOTE

Note:

This document describes the selection scheme which the Government has in mind for the grant of British citizenship under the British Nationality (Hong Kong) Bill. It is based on principles originally proposed by the Hong Kong Government.

Under the British Nationality (Hong Kong) Bill the Governor of Hong Kong would, after Royal Assent, submit proposals for a selection scheme to the Secretary of State who would have the power to amend the scheme as he thought necessary, before submitting it to Parliament for approval.

This document is therefore issued for guidance purposes only. It has no legal status.

PUBLISHED BY THE HONG KONG BILL UNIT (MARCH 1990)  
HOME OFFICE  
50 QUEEN ANNE'S GATE  
LONDON SW1H 9AT

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BRITISH NATIONALITY (HONG KONG) BILL  
SELECTION FOR CITIZENSHIP

Explanatory Note

1. Under the British Nationality (Hong Kong) Bill the Secretary of State (in effect the Home Secretary) would be empowered to grant registration as a British citizen to up to 50,000 heads of households in Hong Kong. He would do so on the basis of recommendations made by the Governor of Hong Kong in accordance with the provisions laid down by the Bill. The Home Secretary would not register a person whom he had reason to believe was not of good character or who had ceased to be eligible.

2. Once the Bill, which is an enabling measure, had been passed by Parliament, the proposed selection mechanism ("the Scheme") for identifying the 50,000 recipients, would be set out in an Order in Council which would be presented to both Houses for approval. The purpose of this Note is to provide Parliament with an explanation of how it is envisaged that such a Scheme would operate.

THE SCHEME

3. The Scheme would comprise four sections:

- the GENERAL ALLOCATION SECTION (GAS);
- the KEY ENTREPRENEURS SECTION (KES);
- the DISCIPLINED SERVICE SECTION (DSS) and
- the SENSITIVE SERVICE SECTION (SSS)

each of which is described below. In selecting people to be recommended for citizenship within these sections, the Governor



would have the assistance of a STEERING GROUP (the advisory committee provided for in the Bill) which would be chaired by the Chief Secretary of the Hong Kong Government, would include independent representatives of the community and which would work closely with the Independent Commission Against Corruption, the Commissioner of which would be a member of the Group.

#### Distribution of Places

4. It is currently envisaged that selection of citizenship recipients would operate in two tranches. The majority of places would be distributed in the first tranche, as quickly as administrative processes in Hong Kong permitted, so that early confidence could be given to key personnel who might otherwise leave. Except in the case of the Key Entrepreneurs Section a second tranche (about 13% of the overall total) would be reserved for allocation nearer to 1997, to cater for those who would by then have moved into key positions, and to give any who had failed to secure a place in the first round a second chance. The figures for the second tranche might be adjusted to take account of any shortfall in the first. People would be able to submit only one application in each tranche. It is expected that the majority of the places would be given to people in the private sector.

5. The distribution by Section could be expected to be as follows:

GENERAL ALLOCATION	36,200
KEY ENTREPRENEURS	500
DISCIPLINED SERVICE	7,000
SENSITIVE SERVICE	6,300
Total:	50,000



### Eligibility

6. Those eligible to apply for citizenship under the scheme would be Hong Kong British Dependent Territories citizens (BDTCs), British Nationals (Overseas) (BN(O)s), British Overseas citizens, British protected persons, and British subjects (BOCs, BPPs and BSs) who were settled in Hong Kong (ie ordinarily resident without limitation on their stay); and others settled there (eg holders of Hong Kong certificates of identity) who had applied for BDTC status before the date on which the Bill was passed, (or for the second tranche, by a later date to be announced nearer the time). People who already held the nationality of another country would be eligible to apply but would have 200 points deducted from their score under the points system - see below. (This would not apply in the case of Chinese nationality.)

### Assessing applications: The Points System

7. A common feature of selection for the GENERAL ALLOCATION and DISCIPLINED SERVICE sections would be the use of a points system to enable applicants to be objectively assessed.

8. The factors to be taken into account, and the maximum number of points available for each, would be as follows:

<u>Criteria</u>	<u>Maximum Points</u>
- Age	200
- Experience	150
- Education/Training	150
- Special circumstances	150
- Proficiency in English	50
- British links	50
- Community service	<u>50</u>
TOTAL	800



9. The Age factor would give maximum points to those aged 30-40, the group which is most prone to emigrate. Points would decrease below the age of 30, and after the age of 40, and people aged 51 or more would incur negative points up to a maximum of 200 negative points for those aged 60 and above.

10. The Experience factor would allow 10 points to be given for each year of relevant working experience up to a maximum of 15 years. For businessmen only, the points would also take account of earnings as a measure of success and value to Hong Kong amongst this category.

11. Under Education/Training, up to 50 points would be available for qualifications gained during general education, a further 50 for basic vocational/professional qualifications, and 50 more for post-qualification training.

12. Special Circumstances points would only be allocated after taking into account the advice of the Steering Group. These points would be an important means of identifying and highlighting special qualities (either individually or for particular occupations as a group) amongst the many who might otherwise appear to have an equal claim. Thus, 50 points might be awarded in assessing applicants within a given occupation to take account of the particular circumstances of that occupation in respect of age, experience or education - for example, to increase the weighting given to professional qualifications in occupations where these were seen as particularly important. A further set of 50 points could be used to give a higher profile to particular occupations which were suffering from an exceptionally high emigration rate compared with other occupations within the same group (see paragraph 17 below). And up to 50 points could be used to recognise exceptional merit or outstanding achievement in individual applicants.

13. Applicants who had obtained a specified standard in the Hong Kong Certificate of Education Examination in English would be



granted 50 points under the Proficiency in English factor. Those who could not produce proof of having attained such a standard would be invited to take an objective test designed to assess their ability in English and appropriate points awarded.

14. Up to 50 points could be scored for British links on the basis of connections with the UK (residence, education, substantial investments, close relatives settled here, etc), for service with British firms, or for civilian or military service for Her Majesty's Government, the Hong Kong Government or other British organisations (eg British Trade Commission, British Council).

15. Points would also be available under the Public/Community Service category for membership (other than in an official capacity) of a permanent statutory or non-statutory board or committee, or an auxiliary service established by the Hong Kong Government.

#### The General Allocation Section

16. The points system would provide the selection mechanism for the GAS. Over 70% of the available places would be allocated under this Section, and it would cover people from a wide range of walks of life who had a key role in maintaining the prosperity and successful administration of Hong Kong. They would come from seven broad areas of work:

- Business and management
- Accounting
- Engineering
- Information services
- Medicine and science
- Law
- Education.

17. For the purposes of the detailed administration of the GAS,



these seven areas would be sub-divided into 20 occupational groups. These are based on groupings specified by the International Standard Classification of Occupations and are used for certain other statistical purposes in Hong Kong, notably the collection and analysis of emigration and census data. Emigration data are important because of the need to give priority under the citizenship scheme to those occupational groups suffering the greatest proportional losses. The places available under the GAS would therefore be divided among the occupational groups according to a formula based on the number of people in each group and their emigration rate over the past three years.

18. Within the first tranche of the GAS, there would be a residual category of 500 places for people with technical skills and professional qualifications who were performing functions which were essential to the continued successful administration of Hong Kong up to 1997 but who did not fall within the occupational groups specified as being "key" for the purposes of the Scheme.

19. The annex to this note indicates, in broad terms, the likely distribution of places available in the first tranche.

#### Procedure

20. Applications would be submitted to the Hong Kong Government by a specified date. The Steering Group would recommend for each occupational group and any of its individual occupations the criteria for which special circumstances points would be awarded. The application forms would be examined by members of the Hong Kong Immigration Department (HKID) and points awarded for each of the criteria listed in paragraphs 9-15 above. The information on all candidates in each occupational group would be entered into a specially designed computer system which would produce an initial profile showing the candidates in order of points scored. This would be examined by the Steering Group who would recommend



any further adjustment which might be needed in the allocation of the special circumstances points to take account of the particular range of applicants and the need to resolve problems of 'bunching'. After the award of these points, a revised ranking of candidates would be produced. If necessary, the process would be repeated. Taking account of the number of places available within the group, HKID would then produce a list of those candidates who appeared to be qualified and those who seemed likely to be rejected. These two lists would be submitted to the Steering Group for examination.

21. Those candidates who appeared prima facie to be qualified would be interviewed by HKID in order to verify the information on their application forms. Checks would also be made to see whether there was any reason to believe that the candidates were not of good character.

22. Subject to satisfactory completion of these checks, details of the qualified candidates would be put forward by the Steering Group to the Governor who, if satisfied, would recommend them to the Secretary of State for registration as British citizens. Where any candidate failed to satisfy these checks, the next candidate in order of points ranking would be interviewed, and similar checks as to character carried out. If successful, he or she would be recommended for registration. Candidates with insufficient points, and those who failed to satisfy the character checks, would be rejected.

23. In the event that a number of candidates scored equal points and all could not be accommodated within the places available for each group, the Governor would have discretion to choose whom to recommend for citizenship.

24. All candidates would be notified of the results of their applications by HKID.



### The Key Entrepreneurs Section

25. Hong Kong has a number of well known and respected entrepreneurs, with an established reputation for large-scale investment and employment in the Territory, whose departure would do much to undermine confidence there. The Key Entrepreneurs Section would offer up to 500 places for people in this category.

### Procedure

26. The Governor would invite those whom he considered might be qualified under this scheme to submit an application, together with supporting documents, by a specified date. It would be open to others who wished to be considered in this category to indicate their interest on an application form submitted under the GAS. Other potential recipients who did not take that initiative might be identified from information set out on their forms when they applied under the Business and Management groups of the GAS.

27. The Steering Group would evaluate the applications on the basis of the information provided, and would submit a report on each to the Governor, who would decide whether to recommend the person concerned for citizenship. The normal character requirements would apply. HKID would notify the people concerned about the outcome.

### Disciplined Service Section

28. This section would provide 7,000 places for the established members of the disciplined services of Hong Kong. These comprise the Correctional Services (Prisons) Department, Customs and Excise Department, Fire Services Department, Royal Hong Kong Auxiliary Air Force, Immigration Department, the operations department of the Independent Commission Against Corruption, the Royal Hong Kong Police Force, and uniformed members of the



Garrison.

29. The available places would be allocated to the services concerned in proportion to their staff numbers. Within each service, places would be allocated to individuals by a points system similar to that used in the GAS described above, although the weighting to be given to each criterion might, on the advice of the Steering Group and with the approval of the Governor, vary to take account of the needs of the particular services. The Steering Group would advise on the allocation of the special circumstances points which would take account of commendations for outstanding service, and documentary evidence of performance, such as staff appraisal reports etc.

#### Procedure

30. Applications would be submitted to the Hong Kong Government by the specified date. Points would be awarded to each applicant by HKID using the marking schemes previously recommended by the Steering Group and tailored to the needs of each individual service. Additional information about performance, commendations, etc provided by the services themselves would also be incorporated. A list of applicants ranked in order of points scored would then be produced by HKID for examination by the Steering Group who would recommend any necessary adjustments in the special circumstances points for each service. After any necessary further adjustments a list of those candidates who appeared to be qualified and those who seemed likely to be rejected would be submitted to the Steering Group for scrutiny. Thereafter, procedures would be as outlined in paragraphs 21-24 above. The normal good character requirements would apply.

#### Sensitive Service Section

31. This section would allow up to 6,300 people who had, in the course of serving Hong Kong or United Kingdom interests in either a civilian or military role, been exposed to special



considerations and special factors during the course of their duties. Existing arrangements to safeguard the interests of some of these people, which have been in place for some years, would be subsumed by this section of the scheme.

### Procedure

32. Many of the individuals concerned would have already been identified by virtue of their rank, position and area of work and would be invited to submit applications to the Hong Kong Government. Once the information had been verified, HKID would scrutinise the applications and, if all was in order, the names would then be submitted to the Governor who, if satisfied, would recommend them to the Home Secretary for registration. The usual good character requirements would apply.

33. Certain people might qualify for inclusion in this scheme on the basis of information coming to the notice of the Governor in other ways. These people would be invited to apply under this section, and their applications processed as described above. HKID would notify candidates of the results of their applications.

### OTHER ISSUES

#### Spouses and children

34. This Note has been focused on the selection of up to 50,000 heads of households. Spouses and children under 18 (at the time of initial application) of successful applicants would be eligible to seek registration as British citizens and, provided they applied in time for their applications to be processed by HKG before 30 June 1997, would normally receive it as a matter of course. There would, however, be discretion to withhold citizenship where the Home Secretary was not satisfied that an applicant was of good character.



35. Unlike heads of households, spouses and children would be eligible regardless of whether they were settled in Hong Kong or of their nationality. However, where a head of household contracted a marriage after ceasing to be settled in Hong Kong the spouse would not be eligible for British citizenship under the Bill; nor would a spouse married after 30 June 1997.

36. Children born after the registration of the head of household, including those born after 30 June 1997, would be British citizens automatically. (This includes children born to couples where the spouse was not a British citizen.)

#### Responsibility for Registration

37. The registration of successful applicants recommended to the Home Secretary for citizenship, and any subsequent issue of British passports, would be supervised by a small team of UK officials based in Hong Kong and acting on the Home Secretary's behalf. Any necessary support staff would be provided by the Hong Kong Government.

#### Funding

38. The Scheme would be self-financing from application fees charged by the Hong Kong Government for consideration under the Scheme and from fees charged for the registration of successful applicants. Any costs incurred by the small team of UK officials mentioned above would be reimbursed by the Hong Kong Government to Her Majesty's Government.



## ANNEX

GENERAL ALLOCATION SECTION

OCCUPATIONAL GROUPS WITHIN THE SEVEN BROAD AREAS AND ANTICIPATED SHARE OF FIRST TRANCHE OF 32,300 ASSURANCES.

<u>Broad Area</u>	<u>Overall Numbers    % Share of Employed (1989) 32,300 places</u>	
1. <u>Business &amp; Management</u>	342,800	61%
Managers and administrators Business professionals Business and administration associate professionals		
2. <u>Accounting</u>	12,500	5%
Accountants and auditors Accounting associate professionals		
3. <u>Engineering</u>	57,300	10%
Engineers & related professionals Architects, planners & surveyors Engineering associate professionals (eg air traffic controllers)		
4. <u>Information Services</u>	10,300	6%
Information science professionals (eg computer programmers) News editors and journalists		
5. <u>Medicine and Science</u>	44,700	8%
Medical doctors Physical & life science professionals (eg chemists, physicists) Nurses and midwives Other medical professionals (eg dentists, pharmacists) Health associate professionals (eg physiotherapists, radiographers)		



6. Law

3,700

1%

Legal professionals  
Legal associate professionals

7. Education

82,700

9%

Teaching professionals (post-  
secondary, eg university and  
polytechnic)  
Educational administrators  
(secondary school principals etc)  
Other teaching personnel  
(secondary and primary)



