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WITHDRAWAL SHEET

Ronald Reagan Library

Collection Name LAUX, DAVID: FILES

Withdrawer

CAS 6/9/2010

File Folder CHINA-FOREIGN RELATIONS-HONG KONG (9/17/82-9/26/82)

FOIA

M09-299/1

Box Number 13

COLLINGS

7

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
92280	CABLE	RE HONG KONG <i>D 12/20/2017 M299/1</i>	2	9/17/1982	B1 B3
92281	DRAFT MEMO	LAUX TO EDWIN HARPER RE BRIEFING MATERIAL FOR HONG KONG TRIP (DRAFT COPY OF 92275) <i>R 12/20/2017 M299/1</i>	1	ND	B1
92282	PAPER	RE HONG KONG <i>D 12/20/2017 M299/1</i>	9	9/20/1982	B1 B3
92283	PAPER	RE HONG KONG <i>D 12/20/2017 M299/1</i>	4	9/21/1982	B1 B3
92284	CABLE	HONG KONG 15686 <i>R 6/21/2012 M299/1</i>	1	9/23/1982	B1
92285	CABLE	HONG KONG 15589 <i>R 6/21/2012 M299/1</i>	1	9/23/1982	B1
92286	PAPER	RE HONG KONG (P. 3 ONLY) <i>R 6/21/2012 M299/1</i>	1	9/24/1982	B1
92287	MEMO	LAUX TO ROBERT MCFARLANE RE STATUS REPORT <i>R 6/21/2012 M299/1</i>	1	ND	B1

Freedom of Information Act - [5 U.S.C. 552(b)]

B-1 National security classified information [(b)(1) of the FOIA]

B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]

B-3 Release would violate a Federal statute [(b)(3) of the FOIA]

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B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]

B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
92288	STATEMENT	PROPOSED STATEMENT RE HONG KONG (ATTACHMENT TO 92287) R 6/21/2012 M299/1	1	ND	B1
92289	CABLE	RE HONG KONG D 12/20/2017 M299/1	2	9/25/1982	B1 B3

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To: Edwin Harper

From: David Laux

Subject: Briefing Materials for Hong Kong

Attached are the following items which might make good airplane reading enroute to Hong Kong:

1. Biographic information on the new Governor, Sir Edward Youde;
2. A State briefing paper on Hong Kong;
3. State Background Notes on Hong Kong;
4. Wall Street Journal article on the Future of HK by Frank Ching, their Beijing correspondent;
5. Far Eastern Economic Review Article on HK (March 1982);
6. CITIBANK Letter on HK (April 1981);
7. Pertinent pages on History of HK from book Hong Kong 1982;
8. Series of interviews with prominent Hong Kong personalities, -from Kaleidoscope, Sept. 1980. Some of these are people you will want to meet.

Hope this is helpful. Have a good trip.

U.S. IN THE WORLD ECONOMY

REMARKS TO THE AMERICAN CHAMBER OF COMMERCE IN HONG KONG

SEPTEMBER 20, 1982

Let me begin by saying that it is a great pleasure to be here in Hong Kong, the scene of my favorite American television series, "The Freedom to Choose." As some of you may know, Milton Friedman, the American Nobel Prize winning economist wrote a book, The Freedom to Choose, which was converted into a ten-part television series in the United States. One of the programs was done here in Hong Kong which Dr. Friedman refers to as the "best example" of a contemporary society that relies primarily on a market economy and a limited government which he sees as by far the most efficient way of producing the greatest economic good for the average individual.

I am sincerely grateful that there is a Hong Kong which can serve as an example to both the East and the West of the tremendous value which we should place on a market oriented economy.

The topic I've been invited to comment on today is the "Role of the U.S. in the World Economy." That role depends on two things -- the strength of the U.S. economy and the relative strength of the world economy.

My basic thesis is that the U.S. economy over the years had developed some fundamental structural weaknesses which are in the process of being repaired and that the world economy is showing of these same weaknesses, but is further away from recovery. The net result of this is the U.S. will play a more important role in the world economy during the next few years than it has during the last few years.

that has some

~~This season's mid-term~~

The election this season is upon us in the United States. Election rhetoric is probably the same around the world. The light it sheds is inversely proportional to the heat it generates. A theme popular in some quarters in the U.S. is that the President's Economic Recovery Program is the cause of and not the cure for the economic weaknesses of the United States in the last few years.

2

One does not have to step back very far to see the fundamental wrong headnesses of that theme. Step back to 1980, another election year. The American people brought Ronald Reagan to the Presidency because he offered hope. The hope that there was an economic policy which could tame inflation and stimulate real economic growth.

halcyon
serenity

What are the facts? Why did the President call his economic program "an economic recovery program"? (Let's take a look at three periods -- the relative nowseian years of 1955 through 1968 -- the years 1969 through 1978 -- and finally the last few years, 1979 through 1981.)

In that first period we find that inflation was only 2.4%. It virtually tripled during the '70's to 6.3% and during the last period of 1979 through '81, it was ^{in 1981} 9.1%.

The prime interest rates in the United States showed the same sort of pattern going from 3.9% to 6.9% to 12.7%. Likewise we see a deterioration with respect to the rate of unemployment rising from 5% to 6% to almost 7%.

Unsustainable
 These numbers ^{I would} ~~obviously~~ suggest ~~show~~ a fundamental structural shift in the American economy which over the long term was unsustainable, because of the tremendous pressures that high rates of inflation and interest put on the economy but also unsustainable because we find that the real growth in our GNP went down from 3.7% to 3.1% to less than 1%.

Well what was the situation on inauguration day, 1981. There we found inflation at 12.4%. The prime interest rate at 21.5%, the real GNP virtually dormant at 0.4% and the unemployment rate at 7.5%.

Meanwhile, we found federal spending increasing during fiscal '80 at an annual rate of some 17% a year which means that virtually by the end of the President's first term, the federal budget would have doubled.

Well what was the President's Economic Recovery Program. Number one was to cut taxes to stimulate savings and investment. Number two was to cut the rate of growth in federal spending. Number three was to reduce the regulatory burden which years of misdirected public policy had lugged as a tax on American productivity and finally it was to promote a stable moderate growth in the money supply.

What are the interim results. Inflation has dropped from 12.5% to 6% during the last few months. The prime rate has dropped from the inaguration day level of 21.5% to 13.5%. And the unemployment rate, traditionally a lagging indicator of economic recovery, remains too high at 9.8%, a level at which it's been for the last several months.

On the federal spending front, we can report some progress. That 17% rate of increase has been cut if the President's '83 budget is accepted to less than 5% and indeed, the the last 18 months, we have uncovered and saved the American tax payers some 10 billion dollars in the President's campaign against fraud, waste, and mismanagement in government.

The short-term economic outlook in the United States is filled with paradoxes. One economist/humorist (arent they all) friend of mine has suggested that the bad news is the good news and that the good news is the bad news.

Inauguration Day
which has

levied

misdirected

been

copy

arent

4

it

it

it

4

that is, that

Actually there is some logic to his point. First of all the bad news ~~that is that~~ we expect the recovery to be slower than the average historic pattern since World War II is the good news because this slow recovery should make for steadier, stronger real growth.

And the good news is the bad news simply means that the good news, interest rates are much lower ~~is of~~ because of the bad news ~~made~~ be softer than expected at this point in the recovery.

that the economy may

*do we still outstrip
COP*

The longer term outlook for the fundamentals of the American economy are excellent. The productivity of the American worker which still outstrips that of major industrialized nation should only get better. It should get better because of fundamental demographic trends, our work force will be a little bit older but still in the prime working years, they will have more formal education and more on the job experience. We anticipate our net national savings will be increasing significantly. Clearly, our tax laws have been reformed to improve the tax climate in the United States. The consensus among economic forecasters is that interest rates will continue to trend lower. All of this means that there will be more capital investment per worker and that's a major contributing factor to improve productivity. Overall, I believe that our real GNP in the United States will be above the United States historic trend levels during the mid-'80s.

I=

While the United States is indeed that world's largest free market ~~within~~ itself, we are significantly concerned about international trade. It does constitute some 10 percent of our gross national product *as opposed to 70 in*

A

- (A) Reorg of Trade resp. 1981. but 1
 - Commerce strengthened
 - USITC strengthened
- (B) FCS
- (C) New Laws

his⁶

Thus, trade policy is a key element of the President's Economic Recovery program. The President's trade policy reflects its deregulatory thrust domestically: the less unnecessary regulation of trade we have the better are we all are.

What are we doing to promote it?

Part of the problem in international trade is finding a level playing field so that the classic economic benefits of comparative advantage can be realized and the producers in each country feel that they are playing by the same rules.

We are trying to fight administrative impediments to free access in a variety of countries

Japan
Korea
China.
(not HK - they've free-ed)

There are a couple of problems in all this, the game has already started as we are looking for this level playing field. Second, each of the many teams simultaneously playing the game feel that they are being disadvantaged by the bad economic weather and are thus struggling to gain some compensatory change in the rules as the games in progress.

Export Trading Co. Legislation

Right
of these pressures may grow stronger.

Despite the devotion of the Administration to the concepts of free trade, the forces of protectionism are at work in the United States and they consider their work a holy cause. In the Congress you'll find that the only Reagan veto overridden by the Congress was the protectionist manufacturers clause requiring that certain types of books be manufactured in the United States and that foreign printers might not manufacture such book for distribution in the United States. Also we've seen a strong sentiment in favor of bilateral reciprocity sector by sector. And finally, the biggest battle currently raging is over what's called "local content." Here we find

FINANCING - What about EX-IM Bank?

We work w/ Andean's (USDOC)

the United Auto Workers buying full page advertisements in the Washington newspapers urging members of Congress to enact legislation which will require that any firm importing more than _____ autos in the United States have at least 90% of the content of that auto manufactured by American labor.

thousand

into

Meanwhile, there are a number of laws already on the books with a protectionist labor that many American companies feel @ necessity they much use. For example, one company is suing to deny investment tax credit to numerically controlled machining units imported from Japan on the basis of _____. American firms have also complained that European and Japanese steel companies are dumping their steel in U.S. markets which required an investigation by the Executive branch of finding the fact and establishment of sanctions. We've also been engaged in actions of an American subsidiary of a West German firm suing to prevent a Canadian firm and a French firm from selling railroad cars at subsidized interest to the City of New York under Section 301 of the 1974 Trade Act. And finally, we have firms invoking what is called Section 232 of regarding requirements of the National Security Stockpiles that would force the Administration to buy certain materials from American firms to build our stockpile strategic materials.

Must

Flavor

of

requires

subsidized

The vigor of the battle between protectionism and free trade in the United States reflects the weaknesses of the world economic picture. During the 1960's and 1970's, the industrialized countries grew at a rate of 5.1% and 3.3% respectively. But since, 1980, they

What about key countries - Japan etc.

have grown at less than 1.4%. For the developing nations, growth during the 1960's and '70's exceeded 5.6% but for 1982 it dropped off to 2.2%.

What about key countries?

Brazil - HK - Korea

Don't these numbers suggest a pattern similar to that of the United States.

The root of the weaknesses in the world economy fundamentally is the same as the weaknesses we find in the U.S. domestic economy - inflation.

weakness



closest

Inflation breeds the notion that the value of commodities is every spiraling upwards. This also tends to breed the notion that those closest to the commodities that the real value of the commodities must be going up because the commodity is every growing scarier and cannot be substituted.

among these

phenomenon scarier

Oil is a good example of this phenomenon. There is a finite supply of oil but we are finding more of it and we are finding substitutes for it. One of which is conservation.

cap

going into

Economic decisions around the world were made based on an oil price of 35 to 50 dollars a barrel and inflation-bloated commodity prices. And, too often, inflation has been regarded as the cure rather than the disease. The net result is that the international economic system is very troubled. The problems are most visible in the international lending area. Among the Communist Eastern Block countries in Europe, we already find Poland in default owing at

least 26 billion dollars to Western countries. Romania has needed to reschedule its larger debts and other Eastern Block countries have also become suspect credits as the Socialist economies have failed to match the performance of more market oriented economies. However, the problem in Latin America is also significant as is evidenced by Mexico's devaluation and its efforts to reschedule 60 billion dollars debt owed to Western banks. Meanwhile, Argentina is still suffering the economic consequences of the Falkland Island War and an inflation rate of 500%. This indeed puts serious strains on the international lending system which has endured a series of major shocks. A calm, rational discipline approach to the international lending situation will succeed. Clearly commercial bankers need to carefully monitor the credit worthiness and needs of their clients and help them work their way out of their problems. Governments need to focus less on today's popular political demand and more on what will heal the economic dislocation they may be facing. Bank regulators need to avoid overreacting. Finally a word should be said about the international monetary fund and its role in underpinning the international system. The policies of the IMF and the World Bank during the late 1970's raised fundamental questions among industrialized countries. In many cases, IMF policies seemed more designed to curry political favor with some countries by financing deficits rather than helping to design and discipline programs to reduce deficits to sustainable levels. I know believe that we can again have confidence in the IMF and that it can do the job.

system.

But it is a strong system

almost

4d

most

underpinning

to arena

All of these problems in the international lending area put a strain on U.S. commercial banks who are of course bankers of the world economy as well as to the U.S. domestic economy. But our U.S. banks have weathered the shocks of the highest levels of commercial bankruptcies since the 1930's and a large number of financial failures including the Penn Square Bank situation. The U.S. Federal Reserve system has been strong, quick and effective in dealing with domestic and international lending problems. I'm confident that it will continue to function in this manner, but more importantly, I think there is more world wide confidence that the U.S. Federal Reserve system has the will and the ability to do so.

bullet

Where does this leave the U.S. role in the world economy?

- 1) The U.S. continues to be a strong force in the world economy. It still is responsible for producing over 20% of the world's gross domestic product.
- 2) The U.S. is emerging from the worldwide recession a little earlier than others. The inflation fever as run its course in the United States.
- 3) The U.S. is playing a key role in supporting other economies of the world through our banking system and as a trading partner.
- 4) The U.S. will be a decisive leader in seeing the world economy through its present difficulties. Our hope is that our actions will always be in concert with our allies and trading partners, but even where they may not be, our respect for other countries manifests itself not only in the fair exchange of goods and services but in the exchange of ideas.

has

Finally

231

92281

14

MEMORANDUM FOR: Edwin Harper

From: David Laux

Subject: Classified Briefing material for Hong Kong Trip

I know that you said you didn't want classified material to take with you to Hong Kong, but I think the following few classified items are worth your reading before you go:

A. A recent ~~of~~ CIA article (25 August) which is the best overall summary of the likely future prospects for Hong Kong.

B. Three cables, the first summarizing Secretary of the Navy Lehman's talks with the Governor, Sir Edward Youde, on August 14. Youde was not ~~in~~ very forthcoming. The other two outline probable British and Chinese positions for negotiations on HK's future.

~~XX~~

Hope this is helpful.

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NLRR m299/1 # 92281

BY kw NARA DATE 12/29/17

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92282	PAPER RE HONG KONG	9	9/20/1982	B1 B3

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92283	PAPER RE HONG KONG	4	9/21/1982	B1 B3

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E. O. 12356: DECL: OADR
TAGS: PINT, PGOV, PEPR, CH, HK, UK
SUBJECT: ZHAO ZIYANG'S COMMENTS ON RECOVERING SOVEREIGNTY
REF: FBIS HK230608

1. (CONFIDENTIAL - ENTIRE TEXT)

2. A TAPE OF ZHAO ZIYANG'S RESPONSE TO A REPORTER'S QUESTION ON THE FUTURE OF HONG KONG HAS THE PREMIER SAYING "CERTAINLY CHINA WILL TAKE BACK ITS SOVEREIGNTY OVER HONG KONG (ZHUQUAN WENTI ZHONGGUO DANGRAN SHI YAO SHOUHUI DE) ... I THINK HONG KONG SHOULD NOT WORRY ABOUT ITS FUTURE." THE REPORTER THEN ASKED WHY, AND ZHAO ACTUALLY REPLIED: "WHY SHOULD THEY WORRY? IF CHINA RECOVERS ITS SOVEREIGNTY, THEN SHE WILL TAKE A SERIES OF POLICIES AND MEASURES TO GUARANTEE HONG KONG'S PROSPERITY AND STABILITY."

3. HONG KONG POLAD OFFS -- AT LEAST FOR NOW -- DO NOT BELIEVE THE REMARKS ARE OF SERIOUS CONSEQUENCE NOR THAT THEY WERE AN EXERCISE IN PREEMPTIVE BARGAINING. CAREFUL LISTENING TO TAPES OF THE PREMIER'S INTERVIEW HAS LED THEM TO BELIEVE HE WAS NOT PREPARED FOR THE AGGRESSIVE QUESTIONING BY THE APPROXIMATELY FORTY HONG KONG JOURNALISTS COVERING MRS. THATCHER'S VISIT. NEVERTHELESS, THEY ARE SOMEWHAT UNHAPPY THAT ZHAO'S REMARKS ARE NOW ON PUBLIC RECORD.

4. HONG KONG'S PRC-CONTROLLED XIN WAN BAO HAS HEADLINED THE ZHAO STATEMENT AS "THE FIRST CLEAR PUBLIC EXPOSITION OF HONG KONG'S FUTURE. CHINA WILL RECOVER SOVEREIGNTY OVER HONG KONG." HONG KONG'S HANG SENG INDEX DROPPED TWENTY POINTS BY 3:30 P. M., A MOVEMENT WHICH THE ASSISTANT POLITICAL ADVISOR SEES AS A REACTION TO ZHAO'S REMARKS. HOWEVER, THIS DROP IS NOT YET OF SIGNIFICANT SIZE.

LEVIN
BT

DECLASSIFIED

NLRR M299 #92284

BY KML NARA DATE 6/21/12

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

92285

24

NATIONAL SECURITY COUNCIL
MESSAGE CENTER

PAGE 01 AMCONSUL HONG KONG 5589 DTG: 230510Z SEP 82 PSN: 043589
EOB693 AN006737 TOR: 266/0517Z CSN: HCE167

REMAIN SOMEWHAT SKEPTICAL THAT THE BRITISH EXPECT TO GO MUCH BEYOND THE TYPE OF FORMULATION WHICH HONG KONG POLADOFFS WERE TRYING TO FIT INTO A POSSIBLE COMMUNIQUE TEXT. END COMMENT. LEVIN

BT

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~~CONFIDENTIAL~~ HONG KONG 15589

E.O. 12356: DECL: OADR
TAGS: PINT, CH, HK, UK
SUBJECT: HONG KONG EXPECTATIONS FOR THATCHER VISIT TOO HIGH?

1. (C - ENTIRE TEXT)

2. SEVERAL LOCAL BUSINESSMEN HAVE TOLD CONGENOFF THAT THEY BELIEVE HONG KONG'S STOCK MARKET AND OTHER FINANCIAL BAROMETERS OF CONFIDENCE IN THE ISLAND'S STABILITY WILL TAKE A SHARP DOWNTURN IF THE ONLY OUTCOME OF MRS. THATCHER'S VISIT TO BEIJING IS A GENERAL STATEMENT ABOUT INITIATING CONSULTATIONS ON HONG KONG'S FUTURE. THE SOURCES, BOTH CHINESE AND WESTERN, STATED THAT EXPECTATIONS HERE ARE STILL HIGH, DESPITE A SPATE OF RECENT PRESS STORIES WHICH ARGUE THAT NOTHING MORE COULD OR SHOULD BE EXPECTED THIS EARLY IN THE GAME. THERE WAS GENERAL AGREEMENT THAT THIS DOWNSWING WOULD NOT BE PERMANENT; BUT, VIRTUALLY ALL PREDICTED THAT THE RECOVERY WOULD BE SLOWER THAN THE ONE WHICH TOOK PLACE ABOUT A MONTH AGO WHEN PRESS SPECULATION FUELED CONCERNS AND THE STOCK MARKET TOOK A NOSEDIVE OVERNIGHT.

3. SEPARATELY, A RESPECTED WESTERN JOURNALIST WITH EXCELLENT LOCAL AND REGIONAL CONTACTS CLAIMS THAT THE BRITISH ALSO HAVE HIGHER EXPECTATIONS. HE DISMISSED THE STANDARD BRITISH COMMENT HERE THAT A GENERAL STATEMENT TO SET UP CONSULTATIONS WAS A MAXIMUM EXPECTATION AT THIS POINT. HE CITED AN INFORMED SOURCE, IN WHOM HE HAS VERY HIGH CONFIDENCE, AS SAYING THAT PM THATCHER WILL ASK THE CHINESE FOR A STATEMENT WHICH WILL ALLOW THE BRITISH TO GET AROUND THE REGULATIONS WHICH SET 1997 AS THE TERMINATION DATE FOR BRITISH RULE. IN OTHER WORDS, ACCORDING TO THIS SOURCE, THE BRITISH WILL BE LOOKING TO GET A CHINESE COMMITMENT THAT NON-PRC RULE CAN PERSIST AFTER 1997 BUT NOT NECESSARILY A SPECIFIC DECISION ON HOW TOTAL ADMINISTRATION WOULD BE HANDLED. COMMENT: WHILE WE HAVE CONFIDENCE IN THE JOURNALIST AND HIS ACCURATE REPORTING OF THE INFORMATION, WE

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BY KML NARA DATE 6/21/12

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China Declares Intent to Regain Hong Kong

By Michael Weisskopf
Washington Post Foreign Service

PEKING, Sept. 23—China openly declared its intent today to regain control over the capitalist enclave of Hong Kong, lost to Britain in a series of humiliating military defeats dating back to the 19th century.

Premier Zhao Ziyang, speaking to reporters before his first round of talks on the issue with visiting British Prime Minister Margaret Thatcher, said, "Of course, China must recover sovereignty" over what now is an English colony.

Zhao moved to soften the implications of a Communist takeover by stressing that China would adopt "certain measures" to guarantee the well being of the world's third-largest banking center and Asia's main trading outpost.

"I don't think Hong Kong needs to be concerned about the future," said Zhao.

A British official declined to comment directly on Zhao's statement, saying, "We are anxious, as we believe the Chinese are, to maintain the prosperity and stability of Hong Kong."

Although Peking privately has made plain its plans to recover Hong Kong after Britain's 99-year lease on the colony expires in 1997, Zhao is the first Communist leader to state the decision publicly.

Despite his assurances, Hong

See HONG KONG, A24, Col. 1

HONG KONG, From A1

Kong's future clearly is the focal point of Thatcher's three-day visit as well as an issue of near obsession for the 5.2 million residents, businessmen and investors of the tiny, commercial center off China's southeastern corner.

Hong Kong has had a bad case of the jitters since the Communist government began expressing its designs in private discussions six months ago. The local currency has slumped, land values have dropped about a third, stock market prices have tumbled more than 20 percent and investors have begun sending their capital abroad.

London, accustomed by now to returning prizes of the faded British empire, is believed willing to lower the Union Jack over Hong Kong as long as it maintains the legal right to manage the territory without overt Chinese interference.

Thatcher's visit is just the opening shot of lengthy negotiations to find a formula that satisfies Peking's desire to reassert sovereignty and provides London the legal guarantee it wants to continue operating the area.

Zhao indicated Peking's willingness to compromise. Among ideas floated are an extended transition period under British control or a dual governorship. "The question of sovereignty does not necessarily have to affect Hong Kong's prosperity," he said.

"We're talking," said a British official after Thatcher's 2½-hour meeting at the Great Hall of the People. "That's the point."

One point both sides acknowledge is that China has more to lose from a breakdown of confidence in Hong Kong and its currency than London. As one of Peking's top trading partners,

the colony provides China with \$8 billion annually, or 40 percent of its convertible foreign exchange earnings. Britain takes away \$100 million yearly.

China owns more than \$2 billion in Hong Kong property and benefits from the colony's high level of technical and commercial expertise as well as its international contacts.

"Chinese leaders don't want to be remembered as the ones who gave away a piece of Chinese territory to British imperialism, but they also don't want to be the guys who killed the goose that lays the 'golden egg,'" said a West European diplomat.

Nevertheless, Peking's aged leaders—many of whom lived through China's agonizing years of dismemberment at the hands of foreign colonizers—consider reclaiming all lost

Chinese territory a national imperative.

A clause of China's new draft constitution provides the legal basis for reincorporating lost Chinese territories now functioning under capitalist systems, such as Hong Kong, Taiwan and the Portuguese colony of Macao.

Once reclaimed, these areas would become "special administrative zones," with the right to operate under different laws than the rest of the country—basically meaning as noncommunist systems.

In July, a top Chinese leader called on "compatriots" in Hong Kong, Macao and Taiwan to study the proposal as a possible solution to "help bring about an early reunification of the Chinese nation."

Shortly thereafter, Hong Kong newspapers began reporting Chinese

plans to reestablish at least nominal sovereignty over the colony after the British lease expires in 15 years—while leaving existing political and economic systems unchanged to prevent a flight of capital and population.

Hong Kong was lost to Great Britain in three separate parcels, starting in 1842 with a treaty ending what was known as the opium war. When the then-ruling Qing empire tried to suppress British trade in opium, the Royal Navy responded with devastating victories at sea. The island of Hong Kong was ceded to Britain permanently.

Eighteen years later, Britain found another pretext for battle and netted as booty the southern portion of the Kowloon Peninsula across the bay from Hong Kong Island. This too was granted in perpetuity.

Finally, the British forced the Qing court in 1898 to lease for 99 years the 370-square-mile lands known as the New Territories that link Hong Kong to the Chinese mainland. The territories, comprising 90 percent of the entire Hong Kong area, technically are the only portion due to revert to Chinese control in 1997. Although the island and southern end of Kowloon were handed over on an indefinite basis, the distinction blurs in reality because they could not survive without the territories to the north.

Even so, the Communist government considers none of the treaties signed by the last imperial government to be binding.

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China States Intent to Regain Hong Kong



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Associated Press

British Prime Minister Margaret Thatcher shares a toast with Chinese Premier Zhao Ziyang at a welcoming banquet in Peking.

HONG KONG DUGGETU by the 15-year-itch

Edward Neilan, who joined *The Washington Times* this summer as assistant foreign editor, recently revisited Hong Kong where he was based as a foreign correspondent for seven years.

By Edward Neilan
WASHINGTON TIMES STAFF

HONG KONG — The countdown to 1997 has begun in Hong Kong and the subject of reversion to control by China is now openly discussed in forums where it previously was mentioned only in whispers.

Assurances given by Chinese Premier Zhao Ziyang in Peking to visiting British Prime Minister Margaret Thatcher yesterday that China would assure Hong Kong's "prosperity and stability" are welcomed but not altogether convincing.

In 15 years, from June 30, 1982, the lease covering much of the British colony runs out and the land reverts to Chinese rule.

Under the present arrangement, Britain has title "in perpetuity" to the island of Hong Kong — the colony's economic center — and to the appendage from the mainland known as Kowloon, up to Boundary Street. Kai Tak Airport, which brings millions of business and tourism visitors and their dollars to Hong Kong each year, is just inside the "permanently British" Hong Kong line.

The rest of the colony — the bulk of the 400-square-mile land area — is covered by the 99-year lease signed with Imperial China in 1898.

The prospect of Hong Kong losing most of its territory has implications for local business and banking, local residents holding mortgages — the government recently had to step in to guarantee 15-year mortgages in Kowloon because of the narrowed time frame — and for the quality of life and work and entrepreneurial style and spirit which have become trademarks of Hong Kong.

Described by Lord Palmerston as a "barren island" when it was first taken over by Britain, Hong Kong has been transformed into a major manufacturing and financial center, a showpiece of laissez-faire capitalism.

Among its many industrial achievements, Hong Kong is the world's largest garment center. Its banking interests spread throughout the world.

With low taxation and little government interference, it has attracted an army of foreign businessmen. Foreign investments, led by American and Japanese businessmen, are estimated at \$1.19 billion.

The economic scene is dominated by such well-established conglomerates as Jardine Matheson and Hong Kong Land, both British owned.

Most businessmen emphasize that Hong Kong is of great economic importance to Peking. China, for example, earns 40 percent of its for-

NEWS ANALYSIS

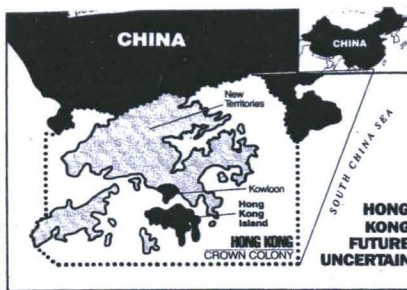
sign revenues, \$7 billion a year, from the colony.

And there are larger economic and geopolitical implications for the region and for the United States in the context of relations with China.

A recent statement by Peng Zhen, who had been vice chairman of China's National Constitution Revision Committee, called on "compatriots" in Taiwan, Hong Kong and Macao to consider their futures in terms of the new constitution, which he said would be pertinent to the administration of those areas.

This was the first specific lumping together of Taiwan, Hong Kong and Macao in an administrative context. The suggestion is that each would be an autonomous territory of China, at least according to Peking's vision.

Macao is run by China already, for all practical purposes, through the local Chinese Chamber of Commerce and the powerful Ho Yin, a resident of Macao but also an official of the provincial committee in neighboring China. The Portuguese flag flies over the territory, but Lisbon's control and influence are nominal.



Joseph Wagner/Special to The Washington Times

The Portuguese once tried to give Macao back to China, but Peking declined; China needs Macao for political card-playing and for gathering of foreign exchange.

In 1979, China's Deng Xiaoping assured then-Hong Kong Governor Sir Murray MacLehose that China would "seek appropriate measures to maintain Hong Kong's stability and prosperity and enable it to continue serving its purpose after 1997."

A Macaoization of Hong Kong is not inevitable, but China's demonstrated annihilation of the work ethic and incentives on the mainland could

scarcely bode well for the vitality of Hong Kong.

Taiwan's future is yet another question and one which draws the United States into the picture even more strongly. Peking quite obviously is seeking to construct some precedents in the Macao and Hong Kong situations which will be applicable in pressuring Taiwan into some sort of accommodation.

China's Nine-Point Policy for Peaceful Reunification with Taiwan was enunciated last September. The Republic of China government on Taiwan strongly rejects Peking's overtures, which state that Taiwan could become a special administrative region, enjoying a high degree of autonomy. Taiwan's socioeconomic system would be unchanged and untouched under Peking's plan, according to Xinhua, the official Chinese news agency.

But would Peking's tampering leave delicate economic machinery unchanged?

Assurances from China about the future of Hong Kong need to be more firm in order to maintain confidence and the importance of the colony as a business and banking center and to maintain its unique quality of life, according to both international businessmen and local residents.

For its part, the Hong Kong government is proceeding with a \$10 billion U.S. development scheme for the New Territories — the sprawl of land north of Kowloon covered by the 99-year lease — as if nothing at all were going to happen in 1997.

John Don, director of New Territories development, said, "Seven new towns will be developed with links to the Kowloon-Canton Railway." He said that when the lease expires there will be 3.3 million people — three times the present population — living in the New Territories' new towns.

In other words, the British administration will be preparing a sophisticated infrastructure of housing, electrification, road improvements, sewage and industrial waste treatment and railway lines that might be turned over to Chinese administration in 1997.



China welcomes British premier

British Prime Minister Margaret Thatcher drinks a toast with Chinese Premier Zhao Ziyang at a welcoming banquet in Peking. In Hong Kong, officials were nervously watching Thatcher's visit, during which she will discuss the future of Britain's richest crown colony with top Chinese leaders.

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3. CHINA-HONG KONG: THE THATCHER VISIT

The Chinese recognize that Hong Kong's continued prosperity is vital to their ambitious modernization plans and to their efforts to regain Taiwan. In their meetings with Thatcher, they are seeking a formula to assure Chinese sovereignty without disrupting the colony's economic status. We expect the talks to produce a joint agreement to set up a commission which will seek to resolve this difficult matter.

* * *

Previous unease about Hong Kong's future has not had a lasting effect on its economy. But starting next year, standard 15-year investment decisions and leases will extend beyond 1997--when Britain's 99-year lease of the island colony expires. Unless China can devise a political solution that will accommodate Hong Kong's free market economy, economic instability is likely. The anticipation that current talks will lead to restoration of Chinese sovereignty caused the Hong Kong stock market to drop 20 points yesterday.

In an effort to stave off any flight of capital and managerial expertise, Zhao has repeatedly affirmed China's intention to preserve Hong Kong's prosperity and stability. Indeed, Hong Kong accounts for more than 30 percent of China's total foreign exchange earnings. In addition, China conducts unofficial trade through Hong Kong with Taiwan and South Korea--contacts which would otherwise be difficult to maintain.

The Chinese have characterized the talks on Hong Kong as "useful" and "friendly" and have suggested that progress on the colony's status can be expected before Thatcher leaves. In his speech welcoming Mrs. Thatcher, Zhao noted that the problems history has left would not be difficult to solve as long as they were approached from a "long term strategic perspective."

For now, Beijing suggests that China's constitutional provision for "special administrative zones" provides a framework into which Hong Kong, and eventually Taiwan, can be fitted without abandoning their non-socialist economic and political structures. For its part, Hong Kong worries whether Communist officials could ever accommodate a capitalist system.

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MEMORANDUM

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NATIONAL SECURITY COUNCIL

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INFORMATION

MEMORANDUM FOR ROBERT C. McFARLANE

FROM: DAVID N. LAUX *DL*

SUBJECT: Status Report on the British-Chinese Agreement on Hong Kong

The British and Chinese intend to make public on September 25 or 26 the Agreement on the future of Hong Kong. The British have made a copy of the text available to our State Department over the weekend and State will provide us a copy today. The initial State reaction to the Agreement is that it is a pretty good one, and that the British did a reasonably good job of negotiating it.

The British have asked the U.S. Government to make a statement commenting on the Agreement in a way which will be helpful in maintaining American investor confidence in Hong Kong. State concocted a statement which, unfortunately, before it was coordinated with us, was given informally to the British and also to our Embassy in Beijing and the Consulate in Hong Kong. However, State has accepted our edits -- which were mainly designed to prevent the comment from being too effusive -- and the revised statement is being cabled to London, Beijing and Hong Kong today.

The whole package is being delivered to Secretary Shultz today. After his approval, the U.S. statement is scheduled to be made in Shultz's name by the State public affairs spokesman at their noon briefing on Wednesday, September 26, 1984.

Attached is a copy of the final statement.

Gaston Sigur ⁶⁻⁵ concurs.

Changed to Tuesday Sept 25

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STATEMENT ON THE UK-PRC
AGREEMENT ON THE FUTURE OF HONG KONG

The U.S. Government welcomes the successful conclusion of two years of negotiations between the United Kingdom and the People's Republic of China over the future of Hong Kong.

The U.S. has a strong interest in the continued stability and prosperity of Hong Kong and believes the agreement will provide a solid foundation for Hong Kong's enduring future progress. In this regard, we have noted statements by both sides indicating that Hong Kong's way of life will be guaranteed for fifty years from 1997 and that systems existing in Hong Kong will continue in the Special Administrative Region.

We expect the American business communities, both in the United States and Hong Kong, will see in this agreement good reason for sustained confidence in the future of Hong Kong as an attractive and thriving commercial center.

The U.S. will provide any assistance it can, in close cooperation with the United Kingdom and the People's Republic of China, to maintain Hong Kong's appropriate participation in international bodies.

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