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Collection Name LAUX, DAVID: FILES

Withdrawer

CAS 6/9/2010

File Folder CHINA-FOREIGN RELATIONS-HONG KONG (9/27/82-10/20/82)

FOIA

M09-299/1

Box Number 13

COLLINGS

8

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
92290	PAPER	RE CHINA-HONG KONG RELATIONS	5	9/27/1982	B1 B2 B3
92291	CABLE	BEIJING 13311 <i>R</i> 6/21/2012 <i>M299/1</i>	2	9/28/1982	B1
92292	PAPER	RE HONG KONG <i>R</i> 6/21/2012 <i>M299/1</i>	1	9/28/1982	B1
92293	CABLE	BEIJING 13311 (ANNOTATED COPY OF 92291) <i>R</i> 6/21/2012 <i>M299/1</i>	2	9/28/1982	B1
92294	CABLE	SECTO 13021 <i>R</i> 6/21/2012 <i>M299/1</i>	2	9/29/1982	B1
92295	CABLE	SECTO 13021 (DUPE OF 92294) <i>R</i> 6/21/2012 <i>M299/1</i>	2	9/29/1982	B1
92296	CABLE	BEIJING 13432 <i>R</i> 6/21/2012 <i>M299/1</i>	2	9/30/1982	B1
92297	CABLE	HONG KONG 16085 <i>R</i> 6/21/2012 <i>M299/1</i>	2	9/30/1982	B1
92298	CABLE	RE HONG KONG <i>D</i> 12/20/2017 <i>M299/1</i>	4	10/5/1982	B1 B3
92299	CABLE	HONG KONG 16473 <i>R</i> 6/21/2012 <i>M299/1</i>	1	10/6/1982	B1

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

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- 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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92302	CABLE	191418Z OCT 82 D 11/2/2010 M299/1	2	10/19/1982	B1 B3

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NOFORN
E.O. 12356: DECL: OADR
TAGS: MASS, PEPR, CH, UK
SUBJ: PRIME MINISTER THATCHER IN CHINA: BRITISH EMBASSY
READOUT

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2. SUMMARY:

THE BRITISH IN BEIJING BELIEVE THAT AGREEMENT TO NEGOTIATE THE FUTURE OF HONG KONG MAKES THE VISIT OF MRS. THATCHER TO CHINA A SUCCESS. DISCUSSIONS ON HONG KONG BETWEEN MRS. THATCHER AND DENG XIAOPING AND PREMIER ZHAO ZIYANG WERE TOUGH. THE BRITISH EXPECT THAT THE NEGOTIATIONS WILL BE VERY DIFFICULT. ON OTHER ISSUES, MRS. THATCHER ASSURED THE CHINESE OF THE FUNDAMENTAL STABILITY OF THE WESTERN ALLIANCE. ZHAO CONFIRMED THE VISIT OF A SOVIET VICE MINISTER OF FOREIGN AFFAIRS BUT SAID HE EXPECTED LITTLE TO COME OUT OF THE VISIT. ZHAO SAID THE SINO-AMERICAN JOINT COMMUNIQUE HAS SMOOTHED OVER RELATIONS FOR THE PRESENT. MRS. THATCHER REAFFIRMED BRITISH WILLINGNESS TO SELL MILITARY EQUIPMENT TO CHINA BUT NO DEALS WERE STRUCK DURING HER STAY. END SUMMARY.

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BY KML NARA DATE 6/2/12

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September 28, 1982

BUREAU OF EAST ASIAN
AND PACIFIC AFFAIRS

NIGHT NOTE

UK-China Discussions on the Future of Hong Kong

According to UK officials in Beijing, discussions on the future of Hong Kong between British Prime Minister Thatcher and Chinese Premier Zhao Ziyang and Deng Xiaoping were "tough." Mrs. Thatcher spelled out Britain's resolve to adhere to the relevant treaties; Deng and Zhao stressed China's intention to regain sovereignty over Hong Kong. Neither side "gave an inch." Nevertheless, the British did obtain their immediate goal: a joint statement committing the Chinese to discuss the future of Hong Kong in detail with the UK and emphasizing China's interest in continued prosperity and stability for the colony.

Details on how the future talks will be conducted have yet to be worked out. The negotiations will not be easy and could continue for some time. A major task for the British is to educate the Chinese leadership about the delicate nature of investor confidence in Hong Kong and to convince them of what must be done to maintain that confidence. Once begun, the British hope to keep the negotiations highly confidential.

China has a strong interest in maintaining stability in Hong Kong, since the territory is exceptionally important to China for financial and other economic reasons. It will be a major test of Chinese flexibility (and perhaps British ingenuity) to see if an outcome can be achieved which respects Chinese principles on sovereignty but makes possible a continuation of Hong Kong's prosperity under British administration.

JCP
Drafted by:EA/C:KPowell
9/28/82 x21322 W3320C

Clearances:EUR/NE:SGeiss^{ok}
EA/C:WFRope^{ok}
EA:TPShoesmith
EA:JHHoldridge

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BY KML NARA DATE 6/21/12

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Pretty disastrous even w/ agreement.

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FM USDEL SECRETARY IN NEW YORK

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NLRR M299 # 92294

BY KML NARA DATE 6/7/12

File
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TO SECSTATE WASHDC IMMEDIATE 6983
AMEMBASSY LONDON IMMEDIATE

INFO AMEMBASSY BEIJING IMMEDIATE
AMCONSUL HONG KONG IMMEDIATE
AIT TAIPEI IMMEDIATE

~~SECRET~~ SECTO 13021

EXDIS
E.O. 12356: DECL: OADR
TAGS: OVIP (SHULTZ, GEORGE P), UNGA, UK, HK, CH, PBOR, PEPR
SUBJECT: (U) SECRETARY'S SEPT. 28 UNGA BILATERAL WITH UK
FOREIGN SECRETARY PYM: HONG KONG

1. (S - ENTIRE TEXT).
2. SUMMARY. DURING HIS SEPTEMBER 28 BREAKFAST WITH THE SECRETARY, UK FOREIGN SECRETARY PYM SAID THE UK WOULD LIKE TO REACH AGREEMENT WITH THE PRC ON THE FUTURE OF HONG KONG IN THE NEAR FUTURE, IF POSSIBLE. THE CHINESE HAD CLEARLY THOUGHT A GREAT DEAL ABOUT THE FUTURE OF THE COLONY AND SEEMED TO ATTACH FIRST PRIORITY TO SOVEREIGNTY RATHER THAN HONG KONG'S CONTINUED PROSPERITY. PYM ASKED THE SECRETARY TO CONSIDER STOPPING IN HONG KONG ENROUTE TO BEIJING SHOULD HE VISIT CHINA. END SUMMARY.
3. SECRETARY SHULTZ NOTED THAT PRIME MINISTER THATCHER HAS BEEN IN CHINA AND SAID HE WOULD BE INTERESTED IN CHINESE ATTITUDES TOWARDS THE FUTURE OF HONG KONG. IN WHAT DIRECTION DOES HONG KONG APPEAR TO BE GOING AND TO WHAT EXTENT MIGHT THE PRC BE THINKING OF IT AS A MODEL OF WHAT MIGHT BE CREATED IN CHINA ITSELF?
4. PYM OBSERVED THAT THE CHINESE HAVE MADE CLEAR THEY WISH TO SEE SOVEREIGNTY RETURN. THERE IS NO WAY TO PREVENT THE RETURN OF THE NEW TERRITORIES TO CHINA WHEN THE LEASE EXPIRES IN 1997, AND THE NEW TERRITORIES REPRESENT 92 PERCENT OF THE WHOLE. THE QUESTION IS, PYM ADDED, WHETHER SOVEREIGNTY CAN BE RETURNED TO THE CHINESE AND AT THE SAME TIME A WAY FOUND TO PERMIT HONG KONG TO CONTINUE WITH A BROADLY BRITISH-BASED ADMINISTRATION THAT WOULD ASSURE CONTINUED PROSPERITY FOR THE COLONY. PYM SAID HE WOULD NOT KNOW THE CHINESE POSITION IN DETAIL UNTIL HE NEXT SEES THE PRIME MINISTER. SHE HAD COME AWAY FROM HER MEETINGS WITH PRC OFFICIALS WITH AN AGREEMENT ON STARTING A PROCESS LEADING TO A MANAGEMENT CONTRACT. IDEALLY, THE UK SHOULD COME QUICKLY TO A DEAL. PYM SAID THAT HE DID NOT KNOW WHETHER ANYTHING COULD BE

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PAGE 02 OF 02 USDEL SECRETARY IN 3021 DTG: 291823Z SEP 82 PSN: 052599

DONE WITHIN A YEAR, BUT IT WAS CLEAR THAT THE CHINESE HAVE THOUGHT A GREAT DEAL ABOUT THE FUTURE OF HONG KONG.

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SHULTZ
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PAGE 02 OF 02 USDEL SECRETARY IN 3021 DTG: 291823Z SEP 82 PSN: 052599

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EXDIS / NOFORN (INCLUDING AUSTRALIANS)
E.O. 12356: DECL: OADR
TAGS: PINT, PEPR, CH, UK, HK
SUBJECT: CHINESE SECRETARIAT MEMBER REPORTEDLY SETS
GUIDELINES FOR HONG KONG RECOVERY

MR

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1. CONFIDENTIAL/EXDIS/NOFORN - ENTIRE TEXT.
2. AUSTRALIAN EMBASSY, STRESSING EXTREME SENSITIVITY OF ITS SOURCE, HAS SHARED WITH US AN ACCOUNT OF A CHINESE COMMUNIST PARTY SECRETARIAT MEMBER'S GUIDELINES FOR RECOVERY OF HONG KONG AS DELIVERED TO A MEMBER OF THE SECRETARIAT STAFF. THE AUSTRALIANS INDICATED THAT THE SECRETARIAT MEMBER, WHO IS KNOWN TO BE POLITICALLY AND PERSONALLY CLOSE TO DENG XIAOPING, WAS RESPONSIBLE FOR OVERSEEING PREPARATION OF STAFF PAPERS ON THE HONG KONG QUESTION IN ADVANCE OF PM THATCHER'S RECENT VISIT.
3. ACCORDING TO THE AUSTRALIANS' INFORMANT, THE SECRETARIAT PREPARED FOR THE CHINESE LEADERSHIP A POSITION PAPER INCLUDING THE FOLLOWING POINTS:
--THE BRITISH MUST RELINQUISH SOVEREIGNTY TO CHINA;
--CONTROL OVER POLICE FUNCTIONS IN HONG KONG MUST BE TRANSFERRED TO CHINA;
--THE CIVILIAN ADMINISTRATION OF HONG KONG MUST EVENTUALLY BE ASSUMED BY CHINA. FOR THE PRESENT, HOWEVER, A TRANSITIONAL ARRANGEMENT WAS POSSIBLE. THE GOVERNOR SHOULD BE JOINTLY DECIDED BY CHINA AND THE UK -- BUT HE SHOULD BE "AN ETHNIC CHINESE WITH BRITISH CITIZENSHIP" WHO ENJOYS RESPECT AND CONFIDENCE IN HONG KONG. IN THIS CONNECTION, THE CHINESE PROPOSED YUE-KONG PAO, CHAIRMAN OF THE HONG KONG WORLDWIDE SHIPPING GROUP, AS THE MOST SUITABLE CANDIDATE.
4. COMMENT: THE FOREGOING INFORMATION WAS CONVEYED ORALLY TO THE AUSTRALIANS IN A SETTING WHICH DID NOT PERMIT PROBING FOR ADDITIONAL DETAILS OR CLARIFICATION. THE AUSTRALIANS UNDERSTAND THAT THE PAPER NAMED TWO OR THREE OTHER PROMINENT HONG KONG BUSINESSMEN AS SUITABLE CANDIDATES FOR A TRANSITIONAL GOVERNORSHIP, BUT THEY ARE UNABLE TO NAME THEM. WE NOTE THAT DENG XIAOPING MET ON SEPTEMBER 24 WITH YUE-KONG PAO -- A GESTURE WHICH COMING IN THE MIDST OF THE STATE VISIT BY PM THATCHER MAY HAVE BEEN INTENDED AS A SYMBOLIC BLESSING FOR CHINA'S FAVORED CANDIDATE TO GOVERN HONG KONG IN

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THE FUTURE. HUMMEL
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UNCLAS SECTION 01 OF 02 BEIJING 13439

E. O. 12356: N/A
TAGS: CH, US, PEPR, OVIP
SUBJECT: KISSINGER AND JI PENGFEI SEPT. 29 TOASTS.

1. JI PENGFEI TOAST:

DR. KISSINGER AND MRS. KISSINGER,
FRIENDS AND COMRADES:

WE ARE VERY PLEASED TO EXTEND A WARM WELCOME TO
DR. KISSINGER, MRS. KISSINGER AND THEIR PARTY FOR COMING
TO CHINA ON ANOTHER FRIENDLY VISIT. DR. KISSINGER IS AN
OUTSTANDING AMERICAN DIPLOMAT. IN 1971, AS ASSISTANT TO
THE U.S. PRESIDENT FOR NATIONAL SECURITY AFFAIRS, HE
VISITED CHINA AND MADE MARKED CONTRIBUTIONS TO THE OPENING
OF SINO-U.S. RELATIONS, WHICH HAD BEEN SUSPENDED FOR OVER
TWENTY YEARS. IN 1972, HE ACCOMPANIED PRESIDENT NIXON ON
A VISIT TO CHINA AND TOOK PART IN THE DRAFTING OF THE
SHANGHAI COMMUNIQUE. IN FEBRUARY 1973, DURING HIS FIFTH
VISIT TO CHINA, IT WAS AGREED TO EXCHANGE LIAISON OFFICES
BETWEEN CHINA AND THE UNITED STATES, THUS PUSHING SINO-U.S.
RELATIONS FURTHER. IN THE FOLLOWING YEARS, HE CONTINUED
TO MAKE EFFORTS FOR THE DEVELOPMENT OF SINO-U.S. RELATIONS.
DR. KISSINGER IS AN OLD FRIEND WHOM THE CHINESE PEOPLE
KNOW WELL.

DR. KISSINGER, SINCE YOUR FIRST VISIT TO CHINA, THE WORLD
HAS UNDERGONE GREAT CHANGES. CHINA AND THE UNITED STATES
HAVE FORMALLY ESTABLISHED DIPLOMATIC RELATIONS, AND OUR
BILATERAL RELATIONS HAVE DEVELOPED IN MANY ASPECTS. AS
YOU ONCE SAID, "WE ENDED OUR ISOLATION FROM EACH OTHER
BECAUSE OF OUR PERCEPTIONS OF OUR NATIONAL INTERESTS."
FACTS HAVE PROVED THAT THE DEVELOPMENT OF SINO-U.S. RELATIONS
NOT ONLY ACCORDS WITH THE INTERESTS OF THE CHINESE
AND AMERICAN PEOPLES, BUT IS CONDUCIVE TO PEACE AND
STABILITY IN THE ASIAN-PACIFIC REGION AND THE WORLD AT
LARGE. THE CHINESE GOVERNMENT AND PEOPLE HAVE ALWAYS
ATTACHED IMPORTANCE TO THE DEVELOPMENT OF SINO-U.S.
RELATIONS AND MADE UNREMITTING EFFORTS TOWARDS IT. NOT
LONG AGO, THE CHINESE AND U.S. GOVERNMENTS ISSUED THE
JOINT COMMUNIQUE, WHICH PROVIDED FOR THE STEP-BY-STEP
REDUCTION OF THE U.S. SALE OF ARMS TO TAIWAN, LEADING TO
A FINAL RESOLUTION. IT GOES WITHOUT SAYING THAT SINO-U.S.
RELATIONS CAN CONTINUE TO DEVELOP ONLY IF THE FIVE

Sino-U.S.

PRINCIPLES OF MUTUAL RESPECT FOR SOVEREIGNTY AND TERRI-
TORIAL INTEGRITY, MUTUAL NON-AGGRESSION, NON-INTERFERENCE
IN EACH OTHER'S INTERNAL AFFAIRS, EQUALITY AND MUTUAL
BENEFIT AND PEACEFUL COEXISTENCE ARE GENUINELY ABIDED BY.
YOUR CURRENT VISIT TO CHINA, YOUR ELEVENTH IN THE PAST
ELEVEN YEARS, IS TAKING PLACE JUST AFTER THE COMMUNIST
PARTY OF CHINA HELD ITS TWELFTH NATIONAL CONGRESS WHICH
IS OF HISTORIC SIGNIFICANCE. NOW, THE CHINESE PEOPLE ARE
STRIVING TO CREATE A NEW SITUATION IN ALL FIELDS OF
SOCIALIST MODERNIZATION. WHEN YOU VISIT VARIOUS PLACES,
WE HOPE YOU WILL SEE SOME OF THE CHANGES THAT HAVE TAKEN
PLACE IN ALL FIELDS IN CHINA OVER THE PAST FEW YEARS.
WE ARE CONFIDENT THAT WE WILL OVERCOME ALL THE DIFFICULT-
IES IN OUR MODERNIZATION ENDEAVOUR AND FINALLY ATTAIN OUR
GOAL. WE ALSO HOPE THAT WITH THE REMOVAL OF ONE HIDDEN
OBSTACLE AFTER ANOTHER, SINO-U.S. RELATIONS WILL CONTINUE
TO MOVE AHEAD. IN THIS SPIRIT, I WISH TO PROPOSE A TOAST.

- TO THE FRIENDSHIP BETWEEN THE CHINESE AND AMERICAN
PEOPLES,
- TO THE HEALTH OF DR. KISSINGER AND MRS. KISSINGER,
- TO THE HEALTH OF AMBASSADOR AND MRS. HUMMEL, AND
- TO THE HEALTH OF ALL THE FRIENDS AND COMRADES
PRESENT HERE!

2. DR. KISSINGER'S TOAST:

MR. STATE COUNSELLOR
FRIENDS

ON BEHALF OF ALL MY PARTY I MEANT TO EXTEND OUR PROFOUND
THANKS TO OUR CHINESE HOSTS FOR THE GRACIOUSNESS AND
WARMTH WITH WHICH YOU HAVE RECEIVED US. WE WHO HAVE BEEN
HERE OFTEN KNOW WE ARE AMONG FRIENDS; THE NEWCOMERS WILL
SOON LEARN THAT CIVILIZED PEOPLE HAVE TWO HOMES: THEIR
OWN AND CHINA. WE ALWAYS MISS YOU WHEN WE ARE AWAY AND
WE ARE ALWAYS HAPPY WHEN WE RETURN.

MY OLD FRIEND JI PENGFEI HAS POINTED OUT THE MANY CHANGES
THAT HAVE OCCURRED SINCE MY FIRST VISIT. HE IS RIGHT.
PERSONALITIES HAVE BEEN REPLACED. BUT THE POLICIES HAVE

ENDURED; THE FRIENDSHIP HAS DEVELOPED.

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-- TO MY OLD FRIEND VICE PREMIER DENG XIAOPING
-- AND TO THE HEALTH OF ALL OUR FRIENDS WHO HAVE
-- HONORED US BY COMING HERE. HUMMEL
BT

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UNCLAS SECTION 02 OF 02 BEIJING 13439

THE SUCCESS IS PARTLY BASED ON SENTIMENTS BUT LARGELY ON COMMON INTEREST. WHEN I WAS HERE THE FIRST TIME PRIME MINISTER ZHOU ENLAI SAID: "OUR WORD COUNTS." AND SO IT HAS PROVED TO BE. THE CHINESE SIDE HAS METICULOUSLY KEPT ITS WORD ON ALL MATTERS LARGE AND SMALL. SO, I LIKE TO BELIEVE, HAS AMERICA THROUGH FOUR DIFFERENT ADMINISTRATIONS OF BOTH PARTIES. THE SHANGHAI COMMUNIQUE -- IN WHOSE DRAFTING I HAD THE HONOR TO PARTICIPATE -- WAS SCRUPULOUSLY OBSERVED. SO, I AM SURE WILL THE MOST RECENT COMMUNIQUE. I SAY SO BASED ON CONVERSATIONS WITH OUT HIGHEST OFFICIALS.

BEYOND THE IMMEDIATE ISSUES WE SHALL SURELY RESPECT EACH OTHER'S PRINCIPLES AND SENSITIVITIES; AND AS THE STATE COUNSELLOR HAS POINTED OUT, WE ARE CONSCIOUS OF A COMMUNITY OF INTERESTS.

THE SECURITY, INTEGRITY, AND WELL-BEING OF THE PEOPLE'S REPUBLIC OF CHINA ARE VITAL AMERICAN INTERESTS. OUR STRENGTH AND DETERMINATION ARE OF SOME IMPORTANCE TO CHINA. NEITHER COUNTRY IS A CARD THE OTHER CAN PLAY; NOR IS THERE ANY OTHER COUNTRY THAT CAN BE SO USED. WE ARE ENGAGED IN A BILATERAL PROCESS, NOT A CARD GAME. WHEN I THINK BACK TO MY MANY VISITS TO CHINA WHAT STICKS IN MY MIND ARE

THE FRANK AND FARSEEING ANALYSES OF MY HOSTS. I HOPE THESE ANALYSES OF VIEW WILL BE RESUMED AT THE OLD LEVEL OF CONFIDENCE. WHEN INTERESTS ARE PARALLEL, CONCLUSIONS FOLLOW AUTOMATICALLY. WHEN TACTICS PRE-DOMINATE, POLICY SUFFERS.

A SINGAPORE FRIEND OF MINE CLAIMS THAT THERE IS A CHINESE PROVERB WHICH SAYS: "WHEN THERE IS TURMOIL UNDER THE HEAVENS, LITTLE PROBLEMS ARE DEALT WITH AS IF THEY WERE BIG PROBLEMS AND BIG PROBLEMS ARE NOT DEALT WITH AT ALL."

LET US DEAL WITH THE BIG PROBLEMS OF HOW TO STRENGTHEN OUR CONSENSUS APPROACHES IN THE MANY FIELDS OF ECONOMICS AND POLITICS WHERE OUR INTERESTS COINCIDE. THEREBY CHINA AND AMERICA WILL CONTRIBUTE TO ORDER UNDER THE HEAVENS.

I PROPOSE A TOAST TO THE LASTING FRIENDSHIP BETWEEN THE CHINESE AND THE AMERICAN PEOPLES.

-- TO BOTH COUNSELLOR JI PENGFEI
-- TO PRIME MINISTER ZHAO ZIYANG

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~~CONFIDENTIAL~~ SECTION 01 OF 02 HONG KONG 16085

NOFORN
E.O. 12356: DECL: OADR
TAGS: PEPR, CH, UK, HK
SUBJECT: SINO-BRITISH TALKS ON HONG KONG: ROUND ONE
REF: A) BEIJING 13311, B) HK 15930, C) HK 15837

1. (C - ENTIRE TEXT)

2. SUMMARY

FOR ALL INTENTS AND PURPOSES, THE FIRST ROUND OF SINO-BRITISH SPARRING ON HONG KONG HAS ENDED INCONCLUSIVELY. BUT IT WAS ONE IN WHICH THE BRITISH ARE PUBLICLY DISPLAYING SATISFACTION, THE HONG KONG PEOPLE DISAPPOINTMENT AND THE CHINESE AN INSCRUTABLE SILENCE. DISCUSSIONS WITH POLAD IN HONG KONG PROVIDE LITTLE DIMENSION BEYOND BEIJING'S INITIAL BRIEF FROM BRITISH EMBOFFS AND IT MAY REQUIRE A RESPITE AND SOME LONDON PRODDING BEFORE WE DETERMINE THE EXACT SUBSTANCE OF THE TALKS. NONETHELESS, PUBLIC BRITISH SATISFACTION ON THE OUTCOME IS MARRIED BY POINTEDLY SILENT TREATMENT FROM BEIJING AND NOT UNEXPECTED DISQUIET ON THE PART OF THE HONG KONG POPULATION. NO QUICK SOLUTION TO THE HONG KONG PROBLEM SEEMS LIKELY, TO THE FURTHER DISADVANTAGE OF HONG KONG'S STABILITY AND POSSIBLY TO THE LONG-TERM GOALS OF BOTH PROTAGONISTS.

END SUMMARY

3. CONGENOFFS MEETING WITH HONG KONG POLAD (PROTECT) CONFIRMED MRS. THATCHER'S "CONFIDENCE IN CONFIDENTIALITY" AND A TOTAL UNWILLINGNESS TO GO BEYOND THE PUBLIC PARAMETERS OF HER CONVERSATIONS IN BEIJING AND HONG KONG. SINCE THIS IS A PERSONAL COMMANDMENT FROM THE "IRON LADY," WE SUSPECT THAT IT MAY BE A WHILE BEFORE ANYONE FEELS FREE TO VENTURE MORE THAN WHAT BEIJING HAS ALREADY REPORTED (REFTEL) AND WHAT WE HAD CONFIRMED TO US TODAY.

4. POLAD EXPLAINED THAT MRS. THATCHER'S STRESS ON THE IMPORTANCE OF OBSERVING TREATIES WAS BASED ON HER BELIEF THAT THE TREATIES ACCOUNTED FOR BRITISH

PRESENCE HERE AND ALSO FOR THE PROBLEM OF THE 1997 LEASE EXPIRATION. THIS PROBLEM, THEREFORE, MERITED DISCUSSIONS BETWEEN BRITAIN AND THE CHINESE. POLAD REFUSED TO RESPOND TO THE SUGGESTION THAT THE PM'S REFERENCE TO THE POSSIBILITY OF A VARIATION IN THE TERMS OF THE TREATIES CONSTITUTED THE FIRST BRITISH ACKNOWLEDGEMENT THAT SOVEREIGNTY OVER HONG KONG AND THE TIP OF KOWLOON WAS NEGOTIABLE. INSTEAD, POLAD STATED THAT EVERYONE COULD READ WHAT THEY WANTED INTO THE STATEMENT. HE ADDED, HOWEVER, THAT THERE WAS A CONSCIOUS BRITISH DECISION TO AVOID ANY REFERENCES TO THE QUESTION OF SOVEREIGNTY.

5. THROUGHOUT THE DISCUSSION, POLAD STRESSED THAT BRITAIN HAD ACHIEVED ITS BASIC OBJECTIVE, ISSUANCE OF A JOINT STATEMENT IN WHICH BOTH SIDES AGREED TO THE NECESSITY FOR CONSULTATIONS. HE SAID, DENG SPECIFICALLY AGREED TO THE STATEMENT AND ITS ISSUANCE. WHEN ASKED ABOUT THE UNUSUAL CHINESE PLAY OF THIS STATEMENT, POLAD APPEARED EXASPERATED AND PIQUED THAT THE CHINESE DID NOT PLAY THE STATEMENT IN THE APPROPRIATE WAY. COMMENT: NCNA HAS GIVEN NO SPECIAL PLAY TO THE SO-CALLED "JOINT STATEMENT." THE INITIAL RELEASE BY XINHUA CAME JUST BEFORE MRS. THATCHER'S PRESS CONFERENCE IN BEIJING AND WAS NOT BILLED IN HE NEWSPAPERS AS A SPECIAL STATEMENT. INSTEAD, IT WAS INCLUDED IN THE TEXT OF NCNA'S STORY ABOUT THE VISIT. MOREOVER, DESPITE ANOTHER BRITISH SOURCE STATING THAT THIS FORM OF RELEASE WAS DESIGNED IN ADVANCE AND BY MUTUAL AGREEMENT TO AVOID THE NECESSITY FOR CHINA REITERATING ITS POSITION ON SOVEREIGNTY, THE CHINESE DID JUST THAT. THE SO-CALLED "JOINT STATEMENT" WAS IMMEDIATELY FOLLOWED IN THE NCNA STORY BY A STATEMENT OF CHINA'S POSITION ON SOVEREIGNTY. AND, WHEN WE ASKED NCNA HONG KONG FOR AN EXPLANATION OF THIS UNUSUAL PLAY, THE NCNA OFFICIALS KEPT US ON HOLD FOR SEVERAL MINUTES, BUT RETURNED WITHOUT AN EXPLANATION, EITHER OFFICIAL OR OTHERWISE. END COMMENT.

6. ON THE QUESTION OF ZHAO'S STATEMENT ON CHINESE SOVEREIGNTY JUST BEFORE THE MEETING WITH MRS. THATCHER, THERE WAS AGAIN AGREEMENT WITH BEIJING'S BRITISH COLLEAGUES THAT THIS WAS A CALCULATED CHINESE EFFORT TO ONE-UP THE BRITISH AND PUT CHINA'S POSITION OUT BT

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FIRST. POLAD STATED, FOR EXAMPLE, THAT ZHAO WAS NOT
AMBUSHED BY REPORTERS BUT INSTEAD WENT TO THEM BEFORE
THE MEETING. HOWEVER, DESPITE THESE ANNOYANCES,
BRITISH PERCEPTIONS REMAINED POSITIVE AND EMPHASIZED
THAT THE CHINESE HAD MADE THE BIG DECISION TO PERMIT
FUTURE CONSULTATIONS TO TAKE PLACE.

7. AS EARLIER MESSAGES HAVE INDICATED (REFS B AND C),
THE REACTION OF THE PEOPLE IN HONG KONG HAS BEEN
LARGELY NEGATIVE. DESPITE THE VERSION OF THE TALKS
IN REFTEL B WHICH INDICATED A VERY STRIDENT CHINESE
LINE, WE AND OTHERS IN HONG KONG REMAIN UNCERTAIN
ABOUT WHAT CHINA HAS INTENDED. OUR BRITISH CONTACTS
WILL ADMIT ONLY TO A NUMBER OF CHINESE PROPOSALS
HAVING BEEN FLOATED HERE FROM TIME TO TIME
WITHOUT INDICATING THAT THERE WAS ANY SPECIFIC
PROPOSAL MADE TO MRS. THATCHER.

8. FROM WHAT WE HAVE SEEN AND HEARD SO FAR,
MRS. THATCHER'S REFERENCES TO THE INVIOABILITY
OF THE TREATIES HAS FALLEN ON UNSYMPATHETIC EARS.
RESPONSIBLE CHINESE BUSINESSMEN WHO OPENLY EMBRACE
A CONTINUED BRITISH ADMINISTRATION IN PREFERENCE
TO PRC ADMINISTRATION HAVE ALSO EXPRESSED "EMBARRASSMENT"
AT MRS. THATCHER'S DISREGARD FOR CHINESE SENSITIVITIES
IN REFERRING TO WHAT CHINESE CONSIDER AS NATIONAL
HUMILIATIONS. THE LOCAL PRC PRESS HAS MADE NO
INDEPENDENT COMMENT ON THESE THATCHER STATEMENTS
BUT HAS CHOSEN TO EXPRESS ITS DISPLEASURE BY REPLAYING
STORIES OF LOCAL STUDENT PROTESTS AGAINST HER TREATY
REFERENCES AND A JIJI SERVICE TEXT FROM BEIJING NOTING
CHINESE OFFICIALS "SEVERE" DISPLEASURE. SOME LOCAL
STUDENT GROUPS APPARENTLY PLAN TO CONTINUE THE PROTEST,
BUT FOR THE PRESENT THERE IS NOT MUCH STEAM BEHIND IT.

9. WHATEVER THE SUBSTANCE OF THE MEETINGS IN BEIJING,
AND IT MAY BE A WHILE BEFORE SOMEONE IN LONDON FEELS
FREE ENOUGH TO TALK ABOUT THE ISSUE, 3THERE REMAINS A
DEEP SENSE OF DISQUIET HERE IN HONG KONG. THERE IS

NO QUESTION THAT THE TALKS WILL GO ON FOR A LONG TIME,
EVEN IF, AS POLAD PREDICTED, THE FIRST MESSAGE ON
MODALITIES FOR THE TALKS WILL BE SENT TO BEIJING QUITE
QUICKLY AFTER MRS. THATCHER'S RETURN TO LONDON.
PM THATCHER HAS REPEATEDLY DECLARED THAT CONFIDENTIALITY
MUST BE MAINTAINED BUT IN DOING SO SHE RISKS A FURTHER
DESTABILIZATION OF HONG KONG'S SELF-CONFIDENCE.

10. LOOKING AT IT FROM THE LONGER TERM, HOWEVER, THIS
STRATEGY MAY BE MORE EFFECTIVE THAN A CONSTANT BRITISH
DECLARATION OF HOW IMPORTANT BRITISH RULE IS TO THE
STABILITY OF HONG KONG. WHILE THIS LATTER STATEMENT
IS ONLY LIKELY TO AROUSE CHINESE PIQUE AND A
CONVICTION THAT HONG KONG MUST TOTALLY REVERT TO
CHINESE CONTROL, THE FRENETIC BEHAVIOR OF HONG KONG'S
BUSINESS COMMUNITY DURING A PERIOD OF UNCERTAINTY MAY
BE MORE CONVINCING TO BEIJING OF A NEED FOR BRITISH
PRESENCE. CHINA MUST OF COURSE ALWAYS LOOK AT ITS
INTERESTS HERE IN TERMS OF THE BROADER ISSUE OF
TAIWAN'S RETURN. MAKING A SUCCESS OF HONG KONG'S
TRANSITION TO A NEW STATUS IS VITAL TO CHINA'S
CONVINCING TAIWAN AND UNITED STATES' SUPPORTERS OF
TAIWAN THAT IT IS POSSIBLE FOR SPECIAL RELATIONSHIPS
TO EXIST WHICH DO NOT ENTAIL A TOTAL ABSORPTION INTO
THE PRC. NONETHELESS, IF THE BRITISH OVERPLAY THEIR
OWN CARDS AND COME DOWN TOO HEAVILY ON THE INVIOABILITY
OF BR-8, 'S HONG KONG-KOWLOON SOVEREIGNTY AND THE
SIGNIFICANCE OF BRITISH RULE TO ECONOMIC STABILITY,
CHINESE NATIONALISM MAY JUST REASSERT ITSELF IN SUCH
A WAY THAT LONDON FINDS ITSELF COMPLETELY DEALT OUT
OF THE GAME AFTER 1997. LEVIN
BT

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TAGS: PEPR, ECON, CH, UK, HK
SUBJECT: HONG KONG GOVERNMENT ANNOUNCES SINO-BRITISH
TALKS UNDER WAY

AK

1. GOVERNOR YOUDE ANNOUNCED TODAY THAT SINO-BRITISH DIPLOMATIC TALKS ON HONG KONG'S FUTURE HAVE BEGUN IN BEIJING. HIS CONFIRMATION THAT THE NEGOTIATIONS AGREED UPON DURING PRIME MINISTER THATCHER'S VISIT ARE ALREADY UNDER WAY WAS GIVEN IN A "STATE OF THE COLONY" ADDRESS TO THE OPENING SESSION OF THE LEGISLATIVE COUNCIL'S 1982-83 SEASON OCTOBER 6. UNFORTUNATELY FOR HONG KONG'S DEPRESSED RESIDENTS AND STOCK PRICES, HIS LENGTHY ADDRESS CONTAINED NO OTHER POSITIVE NEWS ON THE OVERRIDING QUESTION OF THE TERRITORY'S POLITICAL FUTURE. THE GOVERNOR SAID THAT THE CONTENT OF THE TALKS WAS CONFIDENTIAL, AND WHILE HE EXPRESSED CONFIDENCE THAT THEY WOULD LEAD TO AN ACCEPTABLE CONCLUSION FOR ALL PARTIES CONCERNED, INCLUDING HONG KONG RESIDENTS, HE SAID, "I CANNOT MAKE ANY USEFUL FORECAST AS TO WHEN THAT WILL BE."

2. WE CANNOT SEE THE GOVERNOR'S REMARKS DOING MUCH TO OVERCOME THE ATMOSPHERE OF WORRY AND PESSIMISM WHICH HAS DEEPENED SINCE MRS. THATCHER'S TALKS WITH CHINESE LEADERS TWO WEEKS AGO, AND WHICH HELPED TO PUSH THE LOCAL CURRENCY AND STOCK PRICES INTO A NOSEDIVE. IN LINE WITH MRS. THATCHER'S ASSURANCE OF BRITAIN'S "MORAL RESPONSIBILITY" FOR HONG KONG RESIDENTS' WELFARE, GOVERNOR YOUDE PROMISED THAT HER MAJESTY'S GOVERNMENT WOULD "SPEAK FOR" THEM IN THE TALKS. THIS RENEWED ASSERTION OF BRITAIN'S RIGHT TO SPEAK FOR THE PEOPLE OF HONG KONG MAY BRING AN ANGRY CHINESE RETORT, AS MRS. THATCHER'S ORIGINAL REMARK DID. IF SO, THE RESULTING ATMOSPHERICS WOULD PROBABLY DEPRESS LOCAL MORALE MORE THAN YOUDE'S ASSURANCE RAISED IT. IN THAT CASE, THE HONG KONG GOVERNMENT MIGHT INTERVENE TO SUPPORT THE STOCK MARKET AND THE HONG KONG DOLLAR, AS WE HAVE HEARD IT DID THE DAY AFTER MRS. THATCHER'S BEIJING VISIT CONCLUDED. WILLIAMS
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TAGS: PINT, PEPR, CH, UK, HK
SUBJECT: HONG KONG 1997: LOOKING FOR A SOLUTION
REF: A) HK 14427, B) HK 13893, C) HK 14689

1. (C - ENTIRE TEXT)

2. INTRODUCTION/SUMMARY
AS THE FORMAL NEGOTIATIONS FOR THE FUTURE OF HONG KONG BEGIN BETWEEN LONDON AND BEIJING, THE TWO SIDES HAVE TAKEN SHARPLY DIVERGENT VIEWS ON THE SOVEREIGNTY ISSUE. UNDERNEATH THE CLAMOR, HOWEVER, WE DO NOT SEE THE CHINESE AND BRITISH POSITIONS AS IRRECONCILABLE. THE CHINESE APPEAR TO FAVOR A SUBSTANTIVE IF NOT YET CLEARLY DELINEATED TRANSFER OF SOVEREIGNTY BY 1997, AND THE BRITISH NOT TO OPPOSE THIS. WHAT IS FAR LESS CLEAR IS WHETHER ANY SUCH SOLUTION CAN SUSTAIN BUSINESS AND PUBLIC CONFIDENCE IN HONG KONG.

3. WE BELIEVE BEIJING'S BASELINE DOES NOT AT THIS STAGE ENVISAGE A BRITISH ADMINISTRATIVE PRESENCE IN HONG KONG BEYOND 1997. AS WE SEE IT, CHINA WANTS BRITISH HELP IN CREATING A CONFIDENCE-BUILDING SOLUTION PRIOR TO 1997 WHICH WILL RETAIN THE ECONOMIC AND SOCIAL FABRIC OF HONG KONG BUT WHICH, BY THAT DATE, WILL RESULT IN THE ESTABLISHMENT OF ANOTHER ADMINISTRATIVE FORM UNDER CHINESE SOVEREIGNTY AND RUN BY LOCAL CHINESE. WE SUSPECT THAT THIS ARRANGEMENT MAY NOT BE OUT OF STEP WITH BRITAIN'S MORE PRACTICAL AMBITIONS, THOUGH CONCEIVABLY A STUBBORN INSISTENCE BY LONDON ON BRITISH "TREATY RIGHTS" COULD DELAY THE ATTAINMENT OF AGREEMENT.

4. CENTRAL TO THE VIABILITY OF ANY SOLUTION IS THE PERSPECTIVE OF THE HONG KONG BUSINESS AND INVESTMENT COMMUNITY, BOTH LOCAL AND FOREIGN, AND OF HONG KONG RESIDENTS IN GENERAL. IN THE SHORT TERM MANIFESTATIONS OF DECLINING CONFIDENCE IN HONG KONG'S FUTURE ARE LIKELY TO PERSIST HERE AT LEAST

UNTIL SOME SEMBLANCE OF A SOLUTION IS ACHIEVED. AT THAT STAGE, THE COMMUNITY'S VIEW OF THE ADEQUACY OF THE PROPOSED ULTIMATE SOLUTION AND OF THE TRANSITIONAL ARRANGEMENTS IN PRESERVING ECONOMIC, POLITICAL AND SOCIAL CONTINUITY WILL BECOME CRUCIAL. SHOULD INSTABILITY PERSIST AND DISINVESTMENT IN HONG KONG CONTINUE BEYOND THE NEGOTIATION PERIOD INTO THE LATTER PART OF THE DECADE, BEIJING MIGHT BE COMPELLED TO RECONSIDER ITS POSITION AND PROLONG THE TRANSITION PERIOD. BUT AS THE SINO-BRITISH NEGOTIATIONS COMMENCE, THERE IS LITTLE SIGN THAT BEIJING IS GIVING THOUGHT TO SUCH CONTINGENCIES.
END SUMMARY

5. IN EARLIER REPORTING ON HONG KONG'S POST-1997 FUTURE, WE PRESENTED A NUMBER OF PURPORTED PLANS AND BRITISH "HOPES" WHICH PROVIDED FOR SOME RESIDUAL BRITISH ADMINISTRATIVE PRESENCE BEYOND 1997 (REFTELS). HOWEVER, SINCE THE THATCHER VISIT, A VARIETY OF INDICATORS SUGGEST THAT LONDON'S STATED DESIRE FOR A RESIDUAL PRESENCE IS NOT RECIPROCATED ON THE CHINESE SIDE.

6. A RESURGENCE OF NATIONALISTIC FERVOR WAS EVIDENCED IN BEIJING'S STRIDENT RESPONSE TO MRS. THATCHER'S STATEMENTS ON THE VIABILITY OF TREATIES AFFIRMING BRITISH PRESENCE HERE (HK 16345). THIS NATIONALISM WILL ALSO COLOR CHINESE INTERPRETATIONS OF HOW TO MAINTAIN HONG KONG'S ECONOMIC STABILITY AND POPULAR WELFARE -- THE MUTUALLY AGREED GOAL SET FORTH IN THE SINO-BRITISH "JOINT STATEMENT." MANY CHINESE LEADERS RESENT BRITISH PRESENCE AND THE ATTITUDE THAT LONDON IS RESPONSIBLE FOR HONG KONG'S VITALITY. THEY WOULD LIKE TO BELIEVE THEY CAN RUN HONG KONG AS WELL AND STILL ENSURE HONG KONG'S ECONOMIC VIABILITY AND ITS UTILITY

TO CHINA. THUS, AS WE SEE BEIJING'S PERSPECTIVE AS THE NEGOTIATIONS BEGIN, THE PRC WANTS A CHINESE FORM OF CONTROL/ADMINISTRATION AND PERCEIVES THIS GOAL AS ATTAINABLE WITHOUT KILLING THE GOLDEN GOOSE.

7. BUT, BEIJING NEEDS TO KEEP HONG KONG VIABLE WHILE THE TALKS ARE GOING ON AS WELL AS IN THE YEARS BEFORE AND AFTER 1997, AND FOR MORE THAN JUST ECONOMIC REASONS. PRC SUCCESS IN HANDLING THE HONG KONG SITUATION IS BT

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NOW CLEARLY SEEN IN BEIJING AS IMPORTANT IN ASSURING
TAIPEI THAT ASSOCIATION WITH THE MAINLAND NEED NOT
DISTURB TAIWAN'S POLITICAL INSTITUTIONS AND SOCIO-
ECONOMIC SYSTEM. THUS, THE FORM OF CHINESE RULE IN
HONG KONG IS ALSO SIGNIFICANT. A PRC REPLACEMENT FOR
A BRITISH GOVERNOR WOULD MAKE AN UNATTRACTIVE MODEL FOR
TAIWAN'S FUTURE. IDEALLY, THEN, HONG KONG SHOULD
RETAIN A GREAT DEAL OF AUTONOMY UNDER WHICH THE
ECONOMIC AND SOCIAL SYSTEMS WOULD OPERATE AS THEY DO
TODAY, EVEN WHILE SOVEREIGNTY WOULD FORMALLY RETURN TO
CHINA. REFLECTING A CHINESE PERCEPTION THAT TAIWAN'S
RETURN TO MAINLAND CONTROL IS MORE LIKELY TO BE
EFFECTED BY THE CURRENT CROP OF TAIWAN LEADERS THAN
MAKE THE HONG KONG TRANSITION WORK IN THE NOT TOO
DISTANT FUTURE.

8. CHINESE ESTABLISHMENT OF THE SHENZHEN SPECIAL ZONE
ADJACENT TO HONG KONG AND THE 526 KILOMETER OF A NEW DE
FACTO BORDER SEPARATING SHENZHEN FROM THE REST OF
CHINA SUGGESTS ONE FORM THAT CHINA MAY BE CONSIDERING.
IN EFFECT, A LARGER ENTITY INCORPORATING HONG KONG
WOULD BE RUN UNDER DISTINCTLY DIFFERENT RULES FROM
THE REST OF MAINLAND CHINA. THIS STRUCTURE WOULD
BE COMPATIBLE WITH THE NEW DRAFT STATE CONSTITUTION
WHICH PROVIDES FOR THE EXISTENCE OF SEPARATE
ADMINISTRATIVE REGIONS. MOREOVER, SINCE THE SHENZHEN
ZONE IS ALREADY PARTIALLY OPERATIONAL AND WOULD BE
DEVELOPING FURTHER DURING THE PERIOD PRIOR TO HONG
KONG'S REVERSION TO CHINESE SOVEREIGNTY, BEIJING
MAY SEE SHENZHEN AS HELPFUL IN CONFIDENCE BUILDING
AMONG HONG KONG'S POPULATION AND THE INTERNATIONAL
INVESTORS WHO KEEP THE ECONOMY GOING.

9. LEGALISTICALLY, A PRINCIPAL BRITISH CONCERN IS TO
RATIONALIZE THE RETURN TO CHINESE CONTROL OF THE NEW
TERRITORIES IF A NEW AGREEMENT WITH CHINA CANNOT BE
FOUND TO EXTEND THE BRITISH ADMINISTRATIVE PRESENCE
HERE BEYOND THE REVERSION DATE (HK 14689). IN COMMON
WITH ALL BRITISH GOVERNMENTS SINCE 1949, MRS. THATCHER
AND HER GOVERNMENT RECOGNIZE THAT HONG KONG IS
FUNDAMENTALLY INDEFENSIBLE. THUS, THE TRUE IMPORT OF

HER RECENT COMMENTS ON THE INVIOABILITY OF THE
TREATIES IS IN HER IMPLICIT ACKNOWLEDGEMENT THAT
THE SOVEREIGN STATUS OF BRITAIN OVER HONG KONG-KOWLOON
CAN BE NEGOTIATED AWAY -- THE TREATIES CAN BE "VARIED"
(HK 16085 AND HK 15930). NONETHELESS, MRS. THATCHER'S
"IRON LADY" IMAGE, HER STRONG VIEWS ON BRITISH
"TERRITORIAL INTEGRITY," AND CONCERN FOR HER PLACE
IN HISTORY, COULD COMBINE WITH PRC SENSITIVITIES
TO MAKE "SOVEREIGNTY" A SIGNIFICANT STUMBLING BLOCK
IN THE NEGOTIATIONS, IMPEDING DISCUSSION OF THE
PRACTICAL MODALITIES OF A TRANSFER.

10. WITH THAT CAUTION ENUNCIATED, HOWEVER, WE BELIEVE
BRITAIN INITIALLY WILL TRY TO SELL ITS OWN MANAGEMENT
EXPERTISE -- THE COURTS, TRADING AND CORPORATE LAWS,
BANKING AND FINANCE, ETC. -- AND ITS STABILIZING ROLE
AS A CONFIDENCE BUILDER TO ENSURE SOME REDUCED
PRESENCE BEYOND 1997, THOUGH BRITISH PRIDE WOULD
REQUIRE THAT THIS BE IN A FORM WHICH WOULD NOT SMACK
OF SUBSERVIENCE. BRITAIN'S "PROFIT" FROM HONG KONG
COMES NOT FROM ADMINISTERING THE TERRITORY BUT RATHER
FROM ITS MARKET AND PORT ACCESS. THUS, BRITISH NEEDS
MIGHT BE MET BY SUSTAINING HONG KONG AS A FREE PORT
WHERE BRITISH INVESTMENTS AND GOODS COULD CONTINUE
TO FLOURISH IN THE AFTERMATH OF AN HONORABLE ADMINIS-
TRATIVE WITHDRAWAL CALCULATED TO FULFILL BRITAIN'S
PROFESSED "MORAL OBLIGATION" TO THE PEOPLE OF HONG
KONG AND TO SILENCE ANY DOMESTIC CRITICISM REGARDING
LOSS OF EMPIRE. (HONG KONG RESIDENTS IN GENERAL PLACE
LITTLE CREDENCE IN THIS "MORAL OBLIGATION," SINCE
THEY REGARD BRITISH IMMIGRATION POLICIES AS HAVING
BEEN DESIGNED ESPECIALLY TO EXCLUDE MOVEMENT OF HONG
KONG RESIDENTS TO BRITAIN IN THE EVENT OF A COLLAPSE
OF CONFIDENCE OR A PRC TAKEOVER.)

11. THE CONVERGENCE OF SINO-BRITISH INTERESTS IN
HONG KONG'S VIABILITY IS, OF COURSE, THE SUBSTANCE
OF THE SO-CALLED "JOINT STATEMENT" ISSUED DURING
PM THATCHER'S RECENT VISIT. TRANSLATING THE COMMON
DENOMINATOR INTO PRACTICE MAY PROVE DIFFICULT, HOWEVER,
WERE IT TO BE OPENLY ADVERTISED TODAY THAT THE SINO-
BRITISH TALKS INVOLVED 1997 HONG KONG REVERSION TO
CHINESE CONTROL, WE BELIEVE THERE WOULD BE VIRTUAL
ECONOMIC PANIC HERE AND LARGE-SCALE LOCAL DISINVESTMENT
AS WELL AS CESSATION OF THE INFLUX OF FOREIGN
INVESTMENT CAPITAL. REGARDLESS OF BROAD ASSURANCES
THAT THE ECONOMIC AND SOCIAL SYSTEMS WOULD REMAIN
BT

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TRANSITION ARRANGEMENTS ARE FOR LOCAL INTERESTS,
THE LIKELIER HONG KONG'S DOWNTURN IS TO CONTINUE.
OVER SEVERAL YEARS. THIS MALAISE COULD CAUSE BEIJING
TO REVISE ITS CURRENT THINKING, MOVING BEIJING
TO PROLONG ITS TIMEFRAME FOR REALIZING CHINESE
CONTROL AND TO ALLOW A CORRESPONDING EXTENSION OF
BRITISH AUTHORITY. AS OF NOW, HOWEVER, WE SEE LITTLE
EVIDENCE THAT BEIJING HAS MUCH GLIMMERING OF SUCH AN
EVENTUALITY. A LONG EDUCATIONAL PROCESS MAY LIE AHEAD.
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NOFORN
UNCHANGED, THE HONG KONG COMMUNITY WOULD PROFOUNDLY
DOUBT THAT THE CHINESE WOULD PROVE WILLING OR ABLE
TO LEAVE HONG KONG TO ITS OWN DEVICES ONCE A LOCALLY-
RUN SYSTEM WERE ESTABLISHED. IF A PROCESS OF
TRANSITION TO LOCAL RULE UNDER THE RUBRIC OF CHINESE
SOVEREIGNTY IS EMBARKED UPON, THE CHANCES OF SUCCESS
WILL BE ENHANCED IF AS MUCH LOCAL LEADERSHIP IS
INCORPORATED AS POSSIBLE. A MAJOR BRITISH CONTRIBUTION
TO SUCH A SCHEME WOULD BE THE EXISTING SYSTEM OF NON-
BRITISH ADMINISTRATORS BELOW THE VENEER OF LONDON-
APPOINTED OFFICIALDOM -- THE HONG KONG GOVERNMENT'S
ETHNIC CHINESE BUREAUCRACY AND POLICE FORCE AND THE
PRESTIGIOUS EXECUTIVE AND LEGISLATIVE
COUNCILS AND OTHER ADVISORY BOARDS. THOUGH THE EXCO
AND LEGCO PRESENTLY LACK REAL AUTHORITY, IT IS POSSIBLE
THAT MOVING THEIR TOP PERSONNEL -- OR TOP HONG KONG
INDUSTRIALISTS OR FINANCIERS -- INTO POWER AS
REPLACEMENTS FOR THE DEPARTING BRITISH BY 1997 COULD
ESTABLISH A SYSTEM WHICH WOULD PROVIDE CONFIDENCE AND
STILL ALLOW FOR BEIJING SOVEREIGNTY. EVEN THEN
THERE WOULD HAVE TO BE A DETAILED SCENARIO TO PROVIDE
FOR FILLING VACANCIES IN A LOCAL GOVERNMENT, WITH
CONVINCING ASSURANCES THAT BEIJING'S ROLE IN THE
PROCESS WOULD REMAIN LIMITED.

12. WORKING ALL THIS OUT WILL TAKE TIME AND
SENSITIVITY ON BOTH SIDES. UNFORTUNATELY, THE PUBLIC
STANCES ADOPTED SO FAR ARE TOO STRONGLY DIVERGENT TO
BE ENCOURAGING, EVEN IF THEY ARE ONLY BARGAINING
STANCES PRELIMINARY TO MOVES TOWARD MORE COMPATIBLE
SOLUTIONS. TO THE EXTENT THAT THE TWO SIDES PERMIT
THESE PUBLIC VIEWS TO DOMINATE, HONG KONG'S ECONOMY
WILL CONTINUE TO SUFFER AS IT HAS IN THE PAST TWELVE
DAYS, WITH DECLINING STOCK PRICES AND
ESCALATING DOLLAR EXCHANGE RATES. EVEN WITH THE
EARLY INITIATION OF TALKS AND A MODERATION IN PUBLIC
LANGUAGE, THE LENGTH OF TIME NEEDED TO REACH A
SOLUTION WILL STILL DEPRESS HONG KONG'S CONFIDENCE
FOR THE IMMEDIATE FUTURE. THE LONGER THE TALKS DRAG
ON -- AND MANY BELIEVE THAT A YEAR OR TWO WILL BE
NECESSARY -- AND THE MORE UNCERTAIN THE SUBSEQUENT

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