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CAS 6/9/2010

File Folder CHINA-FOREIGN RELATIONS-HONG KONG (11/20/82-1/24/83)

FOIA

M09-299/1

Box Number 13

COLLINGS

11

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
92326	ARTICLE	RE HONG KONG R 12/20/2017 M299/1	1	11/20/1982	B3
92327	PAPER	RE HONG KONG (P. 11 ONLY) PAR 12/20/2017 M299/1	1	11/23/1982	B1 B3
92328	CABLE	HONG KONG 19367 R 6/21/2012 M299/1	3	11/23/1982	B1
92329	CABLE	STATE 329445 R 6/21/2012 M299/1	1	11/24/1982	B1
92330	CABLE	BEIJING 16123 R 6/21/2012 M299/1	1	11/27/1982	B1
92331	CABLE	STATE 333964 R 6/21/2012 M299/1	1	12/1/1982	B1
92332	MAP	RE HONG KONG R 12/20/2017 M299/1	1	ND	B1 B3
92333	CABLE	RE HONG KONG D 12/20/2017 M299/1	2	12/1/1982	B1 B3
92334	CABLE	HONG KONG 20276 PAR 6/21/2012 M299/1	4	12/9/1982	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]

B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]

B-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]

B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]

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]

C. Closed in accordance with restrictions contained in donor's deed of gift.

WITHDRAWAL SHEET

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Collection Name LAUX, DAVID: FILES

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CAS 6/9/2010

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92337	CABLE	STATE 351173 R 6/21/2012 M299/1	1	12/17/1982	B1
92338	CABLE	RE HONG KONG D 12/20/2017 M299/1	3	12/23/1982	B1 B3
92339	CABLE	240353Z DEC 82	1	12/24/1982	B1 B2 B3
92340	CABLE	RE HONG KONG D 12/20/2017 M299/1	2	12/30/1982	B1 B3
92341	CABLE	RE HONG KONG R 6/21/2012 M299/1	4	1/4/1983	B1
92342	CABLE	121805Z JAN 83 D 12/20/2017 M299/1	1	1/12/1983	B1 B3
92343	CABLE	121825Z JAN 83 D 12/20/2017 M299/1	1	1/12/1983	B1 B3
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Freedom of Information Act - [5 U.S.C. 552(b)]

- B-1 National security classified information [(b)(1) of the FOIA]
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92326

HK

FBIS 10

PRC TO RECOVER HONG KONG 'NOT LATER THAN 1997'

HK210054 BEIJING ZHONGGUO XINWEN SHE IN CHINESE 0849 GMT 20 NOV 82

(EXCERPT) BEIJING, 20 NOV (ZHONGGUO XINWEN SHE) -- NPC STANDING COMMITTEE VICE CHAIRMAN LIAO CHENGZHI SAID WHEN MEETING A HONG KONG FACTORY OWNERS' ASSOCIATION DELEGATION HERE THIS MORNING: CHINA WILL RECOVER SOVEREIGNTY OVER HONG KONG BY 1997 AT THE LATEST, AND HONG KONG WILL BE RULED BY HONG KONG PEOPLE. AFTER RECOVERING HONG KONG, CHINA WILL MAINTAIN ITS PROSPERITY AND STABILITY; HONG KONG'S SYSTEM WILL REMAIN, AS WILL THE INHABITANTS' WAY OF LIFE, AND ITS STATUS AS A FREE PORT AND FINANCIAL CENTER WILL BE UNCHANGED. WE ARE FULL OF CONFIDENCE OVER HONG KONG'S FUTURE.

LIAO CHENGZHI HOPED THAT FRIENDS IN HONG KONG INDUSTRY AND COMMERCE WOULD CONTRIBUTE TO PROMOTING HONG KONG'S PROSPERITY.

DOMESTIC

SPEAKING ON CHINA'S MODESTIC POLITICAL SITUATION, LIAO CHENGZHI SAID, SOME PEOPLE SAY THAT THERE ARE MANY POLITICAL CHANGES IN CHINA. THIS IS CORRECT, IF IT REFERS TO THE 10-YEAR PERIOD OF INTERNAL TURMOIL. BUT NOW, WE HAVE CONVENED THE 12TH PARTY CONGRESS, AND THE BASIC GUIDELINES HAVE BEEN LAID DOWN. I DO NOT THINK THEY WILL BE CHANGED.

THE RECEPTION WAS HELD IN THE JIANGSU ROOM OF THE GREAT HALL OF THE PEOPLE.

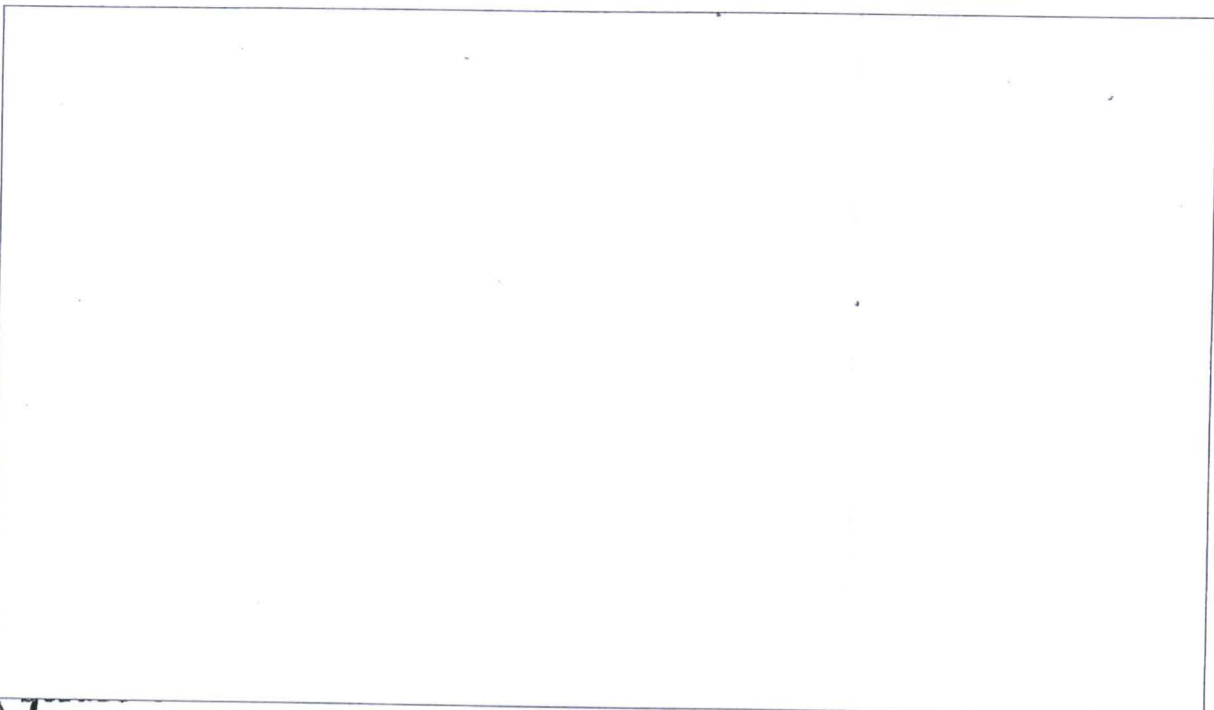
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NLRR M2991 # 92326

BY RW NARA DATE 12/20/17

~~Top Secret~~



HONG KONG: Increase in Visa Applications

The US Consulate in Hong Kong reports that the colony's uncertain future has produced a substantial increase in applications for and inquiries about foreign visas and passports. Applications in October for US nonimmigrant visas were up 42 percent over last year, and applications for immigrant visas also have risen rapidly. Hong Kong's 5.1 million residents now hold an estimated 150,000 valid US visas. Most residents are now ineligible for emigration to the UK, and immigration inquiries at the Australia, Canada, and Singapore Commissions in the colony have increased dramatically.

Comment: The inquiries and applications appear to be only contingency preparations. Many of the potential emigrants, who are largely from the colony's middle and upper classes, are hedging by obtaining second passports, particularly from Taiwan. Taipei would welcome an influx of capital from Hong Kong but would be wary of large-scale immigration.

EO 13526 3.3(b)(1)>25Yrs
EO 13526 3.3(b)(6)>25Yrs
EO 13526 3.5(c)

~~Top Secret~~

23 November 1982

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92328

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BY KML NARA DATE 6/21/12

PAGE 01 OF 02 AMCONSUL HONG KONG 9367 DTG: 231041Z NOV 82 PSN: 020094
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~~SECRET~~ SECTION 01 OF 02 HONG KONG 19367

NODIS
E. O. 12356: DECL: OADR
TAGS: PEPR, PINS, CH, HK, UK
SUBJ: BRITISH DISCUSSIONS ON THE FUTURE OF HONG KONG
REF.: STATE 325080

HK ★

1. SECRET - ENTIRE TEXT

2. AS FORECAST IN AMBASSADOR HUMMEL'S REF MESSAGE, THE HONG KONG GOVERNOR, SIR EDWARD YOUDE, CALLED ME IN NOVEMBER 22 FOR A BRIEFING ON THE HONG KONG SITUATION. ASKING THAT THE INFORMATION BE HELD TIGHTLY, HE ECHOED EARLIER UK CONCERN OVER THE LIMITED DEVELOPMENTS TO DATE. THE CHINESE HAD TOLD THATCHER THAT RESTORATION OF SOVEREIGNTY OVER HONG KONG IN 1997 WAS A NON-NEGOTIABLE PRINCIPLE. THATCHER'S ARGUMENT THAT HONG KONG'S CONTINUED PROSPERITY REQUIRED A SUBSTANTIAL BRITISH ADMINISTRATIVE ROLE HAD BEEN DISTURBINGLY MET WITH A CHINESE ASSERTION THAT THEY ATTACHED GREATER IMPORTANCE TO SATISFYING THE PRINCIPLE OF CHINESE SOVEREIGNTY THAN TO HONG KONG'S PROSPERITY. SINCE THATCHER'S DEPARTURE, VICE FOREIGN MINISTER ZHANG WENJIN AND CRADOCK HAD MET ONCE, WITH ZHANG SUGGESTING THAT THE NEGOTIATIONS BEGIN WITH A DISCUSSION OF "TRANSITIONAL ARRANGEMENTS" LEADING UP TO THE 1997 RESTORATION OF SOVEREIGNTY. ZHANG WAS EXTREMELY FUZZY ON THE MEANING OF "TRANSITIONAL ARRANGEMENTS". THE NEGOTIATIONS HAD BARELY ENTERED THE STAGE OF DISCUSSIONS ON WHAT TO DISCUSS. WITH A NEW CHINESE FOREIGN MINISTER JUST COMING IN AND WITH ZHANG LIKELY ON THE WAY TO WASHINGTON, LONDON BELIEVED IT WOULD TAKE THE CHINESE CONSIDERABLE TIME TO GET THEIR ACT TOGETHER ON HONG KONG.

3. ASIDE FROM INSISTING ON RESTORATION OF SOVEREIGNTY BY 1997, THE CHINESE POSITION WAS VAGUE. HOWEVER, ENOUGH HAD TRANSPIRED TO WORRY THE UK THAT THE CHINESE FAILED TO APPRECIATE THAT A STRONG BRITISH ADMINISTRATIVE ROLE IN HONG KONG IS ESSENTIAL TO HONG KONG'S PROSPERITY. AN EDUCATIONAL EFFORT WAS UNDERWAY WITH HONG KONG CHINESE IN THE FOREFRONT. RECENT CHINESE STATEMENTS GUARANTEEING THAT HONG KONG'S SOCIAL AND ECONOMIC SYSTEM WOULD BE PRESERVED FOLLOWING RESTORATION OF PRC SOVEREIGNTY SUGGEST BEIJING'S HEIGHTENED AWARENESS OF THE FRAGILITY OF CONFIDENCE HERE. CHINESE VERBAL GUARANTEES

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PAGE 02 OF 02 AMCONSUL HONG KONG 9367 DTG: 231041Z NOV 82 PSN: 020094

CARRIED NO WEIGHT WITH THE PEOPLE OF HONG KONG, WHO WERE FAMILIAR WITH PRC POLICIES OVER THE YEARS. YOUDE THEN REFERRED TO THE BRITISH REQUESTS IN WASHINGTON AND BEIJING FOR OUR HELP IN EDUCATING THE CHINESE. I OBSERVED THAT THE DECISION OBVIOUSLY RESTED WITH WASHINGTON. CAREFUL CONSIDERATION WAS REQUIRED. THE PRC SEES US AS AN OBSTACLE TO REUNIFICATION WITH TAIWAN AND IT WOULD BE UNHELPFUL IF THE CHINESE PERCEIVED US AS TRYING TO DO THE SAME WITH HONG KONG. YOUDE AGREED.

4. YOUDE NOTED THAT CHINESE LEADERS OFTEN RECEIVED PROMINENT, NON-OFFICIAL AMERICANS. ASIDE FROM THE QUESTION OF OFFICIAL U. S. INTERVENTION, THE UK WOULD WELCOME THE HELP OF THESE PEOPLE IN EDUCATING THE CHINESE ABOUT THE REALITIES OF HONG KONG. HE ASKED THAT I BRING TO HIS ATTENTION ANY SUCH AMERICANS HERE ENROUTE TO HIGH LEVEL MEETINGS IN BEIJING. HE WOULD WELCOME BRIEFING THEM ON THE HONG KONG SITUATION. I AGREED TO DO SO AND ALSO TO INFORM WASHINGTON OF THE UK'S INTEREST IN ENLISTING THE HELP OF PRIVATE AMERICANS. I SAID THAT IN THE FINAL ANALYSIS THE DECISION WOULD BE UP TO THE CONCERNED AMERICANS.

// - Same pitch the British made to us here

5. COMMENT: MY AGREEMENT WITH AMBASSADOR HUMMEL'S RECOMMENDATION CONCERNING OFFICIAL AMERICAN INVOLVEMENT HAS BEEN REGISTERED IN REFTEL. I WOULD HOPE THAT THE DEPARTMENT ACTIVELY PICKS UP ON THE GOVERNOR'S REQUEST ABOUT THE UTILIZATION OF PRIVATE AMERICANS. IT WOULD HAVE TO BE CAREFULLY AND SELECTIVELY HANDLED TO ASSURE THAT NO USG HAND WAS REVEALED, BUT IT COULD BE HELPFUL ON AN ISSUE INVOLVING SIGNIFICANT U. S. INTERESTS AND IT WOULD PUT US IN A RESPONSIVE LIGHT WITH THE UK.

6. I WOULD WELCOME THE DEPARTMENT'S AUTHORIZATION TO INFORM THE GOVERNOR THAT WE WILL DO OUR BEST TO GET PRIVATE AMERICANS TO DELIVER TO THE CHINESE THE MESSAGE DESIRED ON HONG KONG. SINCE MANY PROMINENT

AMERICANS CALL AT THE DEPARTMENT FOR BRIEFINGS PRIOR TO VISITING BEIJING, IT WOULD BE AN EASY MATTER TO SLIP IN SOME WORDS ABOUT HONG KONG.

7. WOULD APPRECIATE ACCOUNT OF UK REP DONALD'S
BT

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~~SECRET~~ SECTION 02 OF 02 HONG KONG 19367

NODIS
NOVEMBER 5 MEETING WITH SECRETARY AND OTHERS ON HONG KONG
ISSUE.

8. DEPARTMENT PLEASE REPEAT TO LONDON AND BEIJING.
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PAGE 01
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AMCONSUL HONG KONG PRIORITY 8466

INFO AMEMBASSY LONDON PRIORITY 4428
WHITE HOUSE PRIORITY 8285

~~SECRET~~ STATE 329445

NODIS
E. O. 12356: DECL: OADR
TAGS: FEPR, CH, HK, UK
SUBJECT: BRITISH DISCUSSIONS ON THE FUTURE OF HONG
KONG

AK

REF: BEIJING 15840, HONG KONG 19367

1. SECRET - ENTIRE TEXT.

2. WE AGREE WITH YOUR COMMENT IN REFTEL THAT NOW IS NOT THE TIME FOR THE USG TO PLAY THE ROLE OF ADVOCATE FOR THE UK ON THIS ISSUE. SIMILARLY, DRAWING PARALLELS BETWEEN EVENTS IN HONG KONG AND TAIWAN STRIKES US AS DANGEROUS; AT THE NOVEMBER 5 BRIEFING THE SECRETARY TOLD THE BRITISH THAT WE SHOULD SEEK TO KEEP AS MUCH DISTANCE AS POSSIBLE BETWEEN THE HONG KONG AND TAIWAN ISSUES.

3. IN PREPARING FOR THE SECRETARY'S VISIT, WE STILL CONTINUE TO ASSESS THE HONG KONG SITUATION WITH A VIEW TO PREPARING APPROPRIATE TALKING POINTS. GIVEN THE PRESENT STATE OF RELATIONS, WE WILL DO SO ONLY ON A CONTINGENCY

BASIS. THE SECRETARY OFFERED TO DISCUSS THE MATTER WITH THE BRITISH AGAIN BEFORE LEAVING FOR CHINA, BUT THIS SHOULD NOT BE SEEN AS ANY FORM OF COMMITMENT ON OUR PART TO CARRY THE UK'S WATER.

4. FOR BEIJING - GIVEN THIS SITUATION, YOU MIGHT INFORM SIR PERCY THAT WE HAVE HIS POINTS A AND B UNDER CONSIDERATION, BUT WILL BE PREPARED TO LEND SUPPORT ONLY IF APPROPRIATE (ATMOSPHERIC) CONDITIONS OBTAIN. POINT C, IN OUR VIEW, IS A NON-STARTER.

5. WE WILL APPRECIATE THE EMBASSY'S AND CONGEN'S ASSESSMENT OF PRC ATTITUDES TOWARD THE HONG KONG QUESTION AS WE MAKE TRIP PREPARATIONS.

6. REPLY TO HONG KONG 19367 IN PREPARATION. SHULTZ
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NLRR M299 #92329

BY KML NARA DATE 6/21/12

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~~SECRET~~ BEIJING 16123

NODIS
E. O. 12356: DECL: OADR
TAGS: PEPR, CH, HK, UK
SUBJECT: BRITISH DISCUSSIONS ON THE FUTURE OF HONG KONG
REF: STATE 329445

HK

1. SECRET - ENTIRE TEXT.

2. I DELIVERED REPLY IN PARA 4 REFTEL TO BRITISH AMB CRADOCK NOV 26, ADDING FROM PARA 2 SECY SCHULTZ STATEMENT TO BRITS ON NOV 5 THAT WE SHOULD KEEP AS MUCH DISTANCE AS POSSIBLE BETWEEN HONG KONG AND TAIWAN ISSUES. I SAID THAT OUR JOINT OBJECTIVE IS TO HAVE A BENEFICIAL EFFECT ON PRC ATTITUDES, AND WE WOULD WANT TO BE REASONABLY SURE OF THAT RESULT, OTHERWISE THERE WOULD BE NO POINT IN SAYING ANYTHING. CRADOCK SAID HE AGREED WHOLEHEARTEDLY, AND DID NOT SEEM DISAPPOINTED BY OUR RESPONSE. HUMMEL
BT

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NLRR M299 # 92330

BY KML NARA DATE 6/21/12

~~SECRET~~

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AIT TAIPEI

UNCLAS HONG KONG 19819

E.O. 12356: N/A
TAGS: ECON, EGEN, ETRD, HK
SUBJ: HONG KONG CUTS INTEREST RATE
SUMMARY: THE HONG KONG ASSOCIATION OF BANKS (HKAB)
DECIDED TO REDUCE LOCAL INTEREST RATES BY ONE
PERCENTAGE POINT. THIS IS THE SECOND REDUCTION IN
THREE MONTHS. HKAB'S DECISION WAS INFLUENCED BY HONG
KONG'S DWINDLING EXPORT EARNINGS AND WIDENING TRADE
DEFICIT, INTEREST RATE REDUCTIONS ABROAD, AND THE
HONG KONG DOLLAR'S RECENT STABILIZATION AFTER A SHARP
DEPRECIATION IN THE PAST TWO MONTHS. END SUMMARY.

1. THE LOCAL BANKING CARTEL-THE HONG KONG ASSOCIATION OF BANKS (HKAB)-LOWERED LOCAL INTEREST RATES ONE PERCENTAGE POINT, EFFECTIVE NOVEMBER 29. THE PRIME RATE DROPPED FROM 12 TO 11 PERCENT. DEPOSIT RATES DROPPED FROM SIX TO FIVE PERCENT FOR PASSBOOK SAVINGS, 24-HOUR CALL ACCOUNTS, SEVEN DAY CALL ACCOUNTS, AND ONE WEEK AND TWO WEEK DEPOSITS. THE YIELD DROPPED FROM 8.5 TO 7.5 PERCENT FOR ONE MONTH DEPOSITS, FROM 8.75 TO 7.75 PERCENT FOR TWO MONTH DEPOSITS, FROM NINE TO EIGHT PERCENT FOR THREE MONTH AND SIX MONTH DEPOSITS, AND FROM 8.5 TO 8 PERCENT FOR NINE AND TWELVE MONTH DEPOSITS.

2. THE REDUCTION REFLECTS THE INTERNATIONAL TREND OF EASING INTEREST RATES. THIS IS HONG KONG'S SIXTH PRIME RATE CUT SINCE NOVEMBER 30, 1981, WHEN THE PRIME STOOD AT 17 PERCENT. THE LAST REDUCTION OCCURRED ON AUGUST 31, 1982 WHEN THE PRIME RATE DROPPED FROM 12.5 TO 12 PERCENT.

3. THE RATE REDUCTION CAME IN THE WAKE OF NEGATIVE ECONOMIC STATISTICS. HONG KONG'S DOMESTIC EXPORTS WERE DOWN SIX PERCENT IN BOTH SEPTEMBER AND OCTOBER AS COMPARED WITH THE SAME MONTHS LAST YEAR. HONG KONG'S TRADE DEFICIT ALSO WIDENED TO REACH H.K. DOLLARS 886 MILLION (U.S. DOLLARS 134.04 MILLION AT H.K. DOLLARS 6.61 EQUAL U.S. DOLLAR ONE ON DECEMBER 1) IN SEPTEMBER AND H.K. DOLLARS 156 MILLION (U.S. DOLLARS 23.6 MILLION) IN OCTOBER, COMPARED WITH H.K. DOLLARS 215 MILLION (U.S. DOLLARS 32.53 MILLION) AND H.K. DOLLARS 848 MILLION (U.S. DOLLARS 128.29 MILLION) RESPECTIVELY FOR THE CORRESPONDING PERIODS LAST YEAR. THE RATE CUT WILL PARTIALLY RELIEVE THE INTEREST BURDEN ON LOCAL MANUFACTURERS, ALTHOUGH A REAL RECOVERY DEPENDS ON FURTHER REDUCTIONS AND EXPANDED EXPORT DEMAND IN U.S. AND EUROPEAN MARKETS.

4. BANKERS HERE ORIGINALLY DELAYED THE REDUCTION BECAUSE OF CONCERN THAT ANY MOVE WOULD DRIVE THE LOCAL CURRENCY TO A NEW LOW. THE SOFTENING OF THE INFLATION RATE TO NINE PERCENT IN OCTOBER FROM TEN PERCENT IN AUGUST DISCOUNTED PART OF THEIR WORRIES. THIS MEANS THAT REAL INTEREST RATES WILL REMAIN RELATIVELY STABLE AT ABOUT TWO PERCENT.

5. THE HKAB WAS UNDOUBTEDLY ENCOURAGED BY THE FACT THAT THE HONG KONG DOLLAR HAS STABILIZED AGAINST THE U.S. DOLLAR IN RECENT WEEKS. SINCE NOVEMBER 15, THE BUYING RATE FOR U.S. DOLLARS HAS FLUCTUATED BETWEEN H.K. DOLLARS 6.610 TO H.K. DOLLARS 6.670 VERSUS ONE U.S. DOLLAR, AND THE SELLING RATE FOR U.S. DOLLARS

BETWEEN H.K. DOLLARS 6.625 TO H.K. DOLLARS 6.695 VERSUS ONE U.S. DOLLAR. PREVIOUSLY THE HONG KONG DOLLAR HAD WEAKENED SUBSTANTIALLY AGAINST THE U.S. DOLLAR. OVERALL, THE HONG KONG DOLLAR HAS DEPRECIATED SEVEN PERCENT AGAINST THE U.S. DOLLAR IN THE PAST TWO MONTHS.

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AMEMBASSY LONDON PRIORITY 4675
WHITE HOUSE PRIORITY 8311

HK

~~SECRET~~ STATE 333964

NODIS
E.O. 12356: DECL: OADR
TAGS: PEPR, CH, HK, UK
SUBJECT: BRITISH DISCUSSIONS ON FUTURE OF HONG KONG

REF: HONG KONG 19367

1. ~~SECRET~~ - ENTIRE TEXT.

2. AT THE NOVEMBER 5 BRIEFING, THE BRITISH SAID THAT HONG KONG CHINESE BUSINESSMEN HAD BEEN INEFFECTIVE IN EXPLAINING THE HONG KONG SITUATION TO OFFICIALS IN BEIJING -- THEY BECOME TONGUE-TIED AS THEY APPROACH THE DRAGON THRONE. THE SECRETARY AGREED THAT THE FORTHRIGHT U.S. BUSINESSMAN MIGHT BE ABLE TO CONVEY HIS OWN PERCEPTIONS TO THE CHINESE, CONVEY THE IMPACT OF THE CURRENT UNCERTAINTY ON THEIR OWN TRADE AND INVESTMENT PLANS, AND SUGGEST THAT INVESTOR CONFIDENCE WOULD BE BOUYED BY THE MAINTENANCE OF U.K. ADMINISTRATION.

3. YOU MAY INFORM THE GOVERNOR THAT WE ARE PREPARED TO BRIEF INFLUENTIAL PRIVATE AMERICANS HEADED FOR THE PRC,

ON A VERY SELECTIVE BASIS AND WITH MAXIMUM DISCRETION, ON OUR CONCERN THAT PRC OFFICIALS HAVE ONLY A DIM APPRECIATION OF THE NATURE OF INVESTOR CONFIDENCE. WE WILL SUGGEST TO THEM THAT, SHOULD THE OCCASION ARISE, THEY MIGHT EXPRESS THEIR CONCERNS AS PERCEIVED BY THEMSELVES OR THEIR FIRMS; WE BELIEVE IT WOULD NOT BE HELPFUL FOR THEM TO PARROT THE U.K. LINE. INASMUCH AS THE APPEARANCE OF AN ORCHESTRATED U.K.-U.S. APPROACH WOULD RISK INCREASING CHINESE IRRITATION, YOU MIGHT SUGGEST TO THE GOVERNOR THAT BUSINESSMEN OF OTHER NATIONALITIES, PARTICULARLY JAPANESE, COULD BE DISCREETLY APPROACHED FOR SIMILAR MESSAGE CARRYING.

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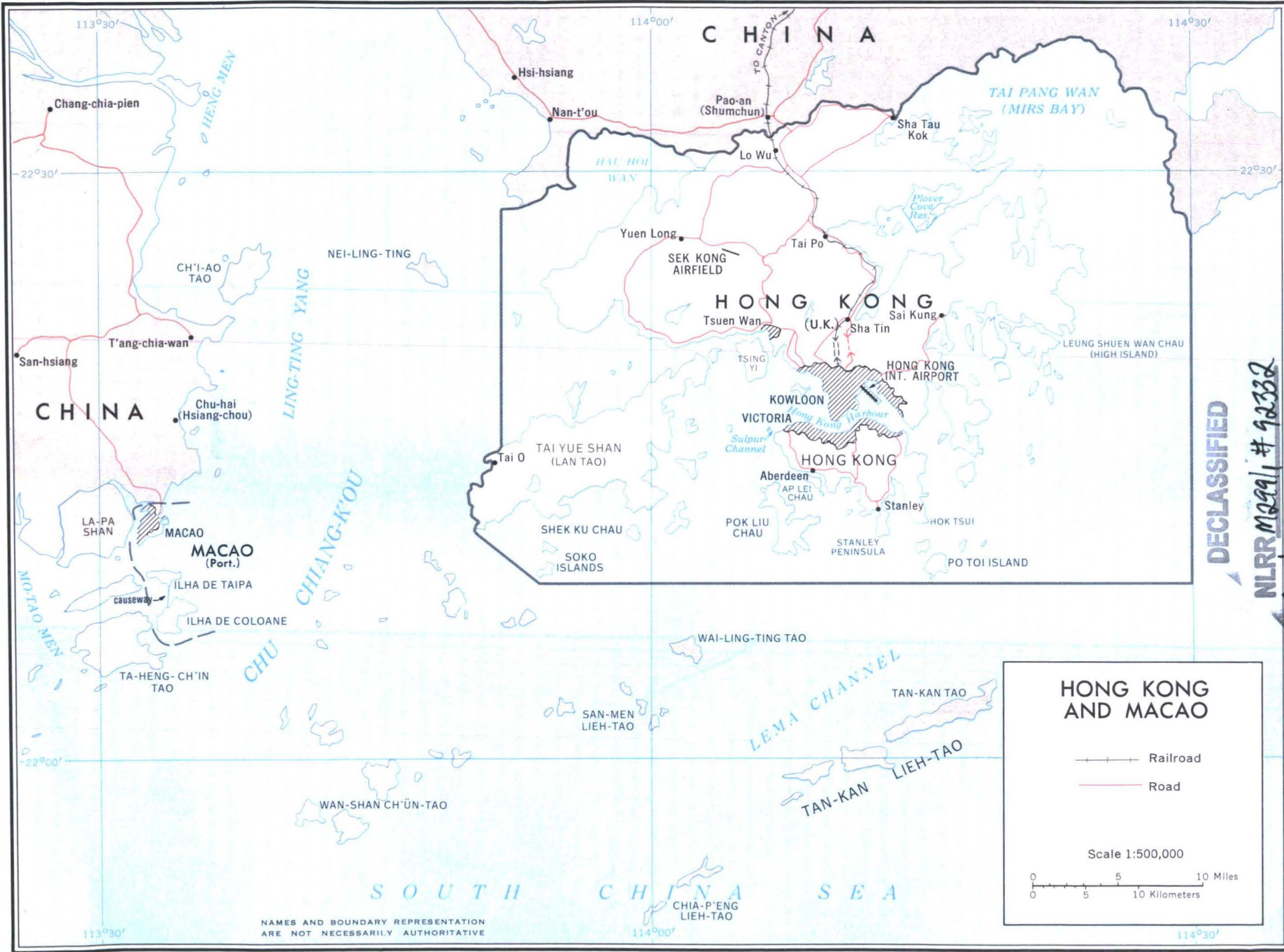
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EXDIS
NOFORN
E. O. 12356: DECL: OADR
TAGS: PDIP, CH, UK, HK
SUBJECT: UK-PRC PRIVATE CHANNEL INACTIVE AND
NEGOTIATIONS AT A STANDSTILL
REF: HONG KONG 14427

HK

1. (S - ENTIRE TEXT)

2. SUMMARY
ALTHOUGH THE TERMS OF REFERENCE FOR THE USE OF THE PRIVATE UK-PRC CHANNEL SET UP HERE EARLIER HAVE CHANGED, THE FOREIGN OFFICE IN LONDON REMAINS RELUCTANT TO AUTHORIZE ITS USE BECAUSE PM THATCHER CONTINUES PERSONALLY TO TAKE A HARD LINE ON THE ISSUE OF SOVEREIGNTY. A WELL-PLACED SOURCE WHO SET UP THE CHANNEL HAS BECOME INCREASINGLY FRUSTRATED OVER THE LACK OF MOVEMENT IN THE TALKS SO FAR AND SEES THE CONTINUING DISSUSSION IN THE MEDIA OF PRC COMMENTS TO HONG KONG VISITORS AS A SIGNAL THAT BEIJING TOO IS BECOMING IMPATIENT WITH LONDON'S STANCE. THE BRITISH ARE ALSO REPORTEDLY CONCERNED THAT CHINA MAY BE LOSING CONFIDENCE IN THE TALKS AND GETTING THE WRONG IMPRESSION OF HONG KONG CITIZENS' INTERESTS IN THE ULTIMATE FATE OF THE COLONY.
END SUMMARY

3. ACCORDING TO A WELL-PLACED HONG KONG GOVERNMENT SOURCE, LONDON HAS NOT AUTHORIZED THE USE OF THE PRIVATE COMMUNICATIONS CHANNEL WHICH HE ESTABLISHED HERE (REFTEL) WITH A NEPHEW OF LIAO CHENGZHI AS A MEANS OF TESTING THE WATERS ON MODALITIES OF A POST-1997 ADMINISTRATION. OUR SOURCE CLAIMS THAT FOREIGN MINISTER PYM HAS REFUSED TO PRESENT THE IDEA TO PM THATCHER BECAUSE OF HER STRONG REACTIONS TO THE FOREIGN OFFICE RECOMMENDATIONS ON THE FALKLANDS ISSUE AND PYM'S CONVICTION THAT SHE WOULD DISMISS THE PROPOSAL BECAUSE OF HER VIEWS ON THE VALIDITY OF THE TREATIES AND BRITISH SOVEREIGNTY. THERE IS ALSO, ACCORDING TO OUR SOURCE, AN ONGOING DEBATE OVER WHAT TO SAY IN THE PRIVATE CHANNEL. ON THE ONE HAND, IT WOULD CLEARLY BE ADVANTAGEOUS TO SUGGEST THAT THERE BE LESS PUBLIC PRC COMMENT --

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THOUGH THIS IS LARGELY A PRODUCT OF HONG KONG VISITORS FLOODING THE PRESS WITH THEIR IMPRESSIONS OF CHINESE POSITIONS. BUT, WITHOUT A SPECIFIC MESSAGE OF THEIR OWN TO ADD TO BRITAIN'S STATEMENTS DURING THE THATCHER TALKS IN SEPTEMBER, THE GOVERNOR AND POLAD ARE HESITANT TO BEGIN TO USE THE CHANNEL.

4. OUR SOURCE, ON THE OTHER HAND, BELIEVES IT IS IMPORTANT TO OPEN THE CHANNEL SO THAT THE PRESENTLY UNPRODUCTIVE FORMAL TALKS DO NOT REMAIN THE ONLY FORM OF SINO-BRITISH COMMUNICATION. HE ARGUES FURTHER THAT A REPACKAGING OF MRS. THATCHER'S VIEWS -- ALONG THE LINE OF LORD MACLEHOSE'S DECEMBER 3 SPEECH IN LONDON (HONG KONG 20118) -- WOULD ALSO BE OF USE. BUT IT IS JUST THIS POSITION WHICH THE FOREIGN MINISTER FEELS CANNOT BE ADVANCED AT THIS TIME.

5. OUR SOURCE INDICATED THAT HONG KONG GOVERNMENT AUTHORITIES ARE ESPECIALLY TROUBLED BY THE RECENT VISIT OF THE HONG KONG FACTORY OWNERS' ASSOCIATION DELEGATION AND THE FREQUENT, OUTSPOKEN COMMENTS OF ITS LEADER, HUANG JIAN, FOLLOWING THE DELEGATION'S MEETING WITH POLITBURO MEMBER/NPC VICE CHAIRMAN LIAO CHENGZHI. THE BRITISH HERE ARE CONCERNED ON TWO SCORES. FIRST, THEY ARE DISTURBED THAT CHINESE OPENNESS IN CONVERSATIONS WITH THE DELEGATION SUGGESTS BEIJING DISSATISFACTION WITH THE FORMAL TALKS AND BRITAIN'S POSITION ON SOVEREIGNTY (HONG KONG 20001). SECOND, THEY ARE CONCERNED THAT HUANG'S PUBLIC STATEMENTS ARE DECEPTIVE, SMOOTHING OVER MAJOR PROBLEM AREAS IN AN EFFORT TO REASSURE OR TO PUFF UP THE SELF-IMPORTANCE OF HUANG JIAN. THE BRITISH ARE AWARE, FOR EXAMPLE, FROM ██████████ PHONE CALLS MADE BY THE DELEGATION MEMBERS FOLLOWING THEIR MEETING

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As Amended
Sec. 3.3(b)(1),
3.3(b)(6)

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~~SECRET~~ SECTION 02 OF 02 HONG KONG 20276

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WITH LIAO, THAT THOSE MEMBERS PLACED SELL
ORDERS WITH THEIR STOCK BROKERS IN CONTRAST
TO THEIR PURPORTED OPTIMISM OVER THE TALKS.

6. BRITISH AUTHORITIES HERE HAVE NO DOUBT THAT THE CHINESE ALSO MONITORED THESE CALLS. OUR OWN CONVERSATIONS WITH NCNA OFFICIALS AND OTHERS HERE HAVE INDICATED UTTER DISDAIN FOR HUANG AND HIS STATEMENTS FOLLOWING HIS CHINA MEETINGS. WE ARE ALSO AWARE THAT NCNA MADE AN EFFORT TO SILENCE HIM, AT ONE POINT CALLING HUANG IN TO URGE THAT HE NOT COMMENT FURTHER ON THE TALKS -- ADVICE WHICH HUANG CHOSE TO IGNORE (HONG KONG 20038). OUR SOURCE'S CONCERN IS THAT THE PERFORMANCE OF HUANG AND HIS COHORTS CREATES A TOTALLY INCORRECT PICTURE OF THE FUNDAMENTAL INTERESTS OF THE HONG KONG PEOPLE AND EVEN ITS BUSINESS CLASS. THE PRC IS ALREADY CONVINCED THAT THE PROPERTY BARONS ARE A WORTHLESS LOT WHO -- IN MARXIST TERMS -- ARE PURE EXPLOITERS, ADDING NOTHING TO THE NET WORTH OF ANY PRODUCTION. SHOULD THEY NOW SEE THE FACTORY OWNERS -- WHO IN MARXIST TERMS AT LEAST ARE PRODUCERS -- OPERATING IN A STRICTLY SELF-INTERESTED MANNER, OUR SOURCE BELIEVES IT WOULD COMPLICATE THE EFFORTS OF THOSE IN THE CHINESE LEADERSHIP WHO WISH TO PRESERVE HONG KONG'S EXISTING ROLES AND A SEMBLANCE OF ITS PRESENT SYSTEM.

7. COMMENT
OUR SOURCE HAS GONE CONSIDERABLY BEYOND HIS AUTHORITY IN TELLING US OF CURRENT INTERNAL UK PROBLEMS ON THE SINO-BRITISH TALKS. HIS REMARKS AND ALL REFERENCES TO THE EXISTENCE OF A PRIVATE CHANNEL TO THE CHINESE SHOULD BE ABSOLUTELY PROTECTED. WE ARE SYMPATHETIC TO HIS VIEWS OF BEIJING'S MISUNDERSTANDING OF THE FEELING OF THE HONG KONG PEOPLE BASED ON LEADERSHIP MEETINGS WITH HONG KONG BUSINESSMEN BUT SEE NO IMMEDIATE WAY AROUND THIS IMPASSE.
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92335	CABLE 102123Z DEC 82	2	12/10/1982	B1 B3

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EXDIS
NOFORN
E. O. 12356: DECL: OADR
TAGS: PEPR, CH, HK, UK
SUBJECT: FUTURE OF HONG KONG: BRITISH STANCE
REF: (A) HONG KONG 020415, (B) HONG KONG 020276,
- (C) HONG KONG 020001, (D) HONG KONG 019898,
- (E) HONG KONG 020662

1. CONFIDENTIAL - ENTIRE TEXT.
2. SUMMARY: THATCHER VIEWS BRITISH SOVEREIGNTY OVER HONG KONG AS NEGOTIABLE, THOUGH ONLY WITHIN THE CONTEXT OF AN OVERALL SETTLEMENT COOVERING FUTURE ADMINISTRATION, ECONOMIC ARRANGEMENTS, AND THE WELL-BEING OF THE PEOPLE OF HONG KONG, ACCORDING TO THE FCO WORKING LEVEL. FORMAL TALKS WITH PEKING HAVE MOVED SLOWLY WHILE THE PRC SHIFTED MFA STAFF AND CONDUCTED ITS PUBLIC CAMPAIGN ON BEHALF OF ITS OWN POSITION. OTHER THAN THE FORMAL NEGOTIATIONS AND CHINA'S PUBLIC MONOLOGUE, NO OTHER CHANNEL OF COMMUNICATION IS CURRENTLY IN USE. HONG KONG IS NOT A DOMESTIC POLITICAL ISSUE IN THE UK, AND HAS DRAWN LITTLE PUBLIC ATTENTION SINCE THATCHER'S VISIT. END SUMMARY.
3. OPENING UP FOR THE FIRST TIME ON THE UK-PRC TALKS, THE FCO HONG KONG DESK OFFICER GAVE US A FULL RUN-DOWN DECEMBER 15. HE EMPHASIZED THE NEED FOR STRICT CONFIDENTIALITY AND THE FACT THAT HMG IS NOT BRIEFING OTHER COUNTRIES. REFLECTING THE TIGHT HOLD ON THIS ISSUE SINCE THATCHER'S TRIP, FCO OFFICERS IN EARLIER CONTACTS HAVE BEEN CAREFUL NOT TO GO BEYOND REFERENCES TO PUBLIC STATEMENTS AND TO ASSISTANT UNDER SECRETARY DONALD'S BRIEFING IN WASHINGTON.
4. PEKING TALKS: THE UK AMBASSADOR IN PEKING MET THREE TIMES (TWICE IN OCTOBER, ONCE IN DECEMBER) WITH VICE FOREIGN MINISTER ZHANG WEN JIN BEFORE THE LATTER'S REASSIGNMENT AS AMBASSADOR TO THE U. S. ZHANG'S SUCCESSOR (YAO GUANG, FORMER AMBASSADOR IN PARIS) IS EXPECTED TO BE THE NEW INTERLOCUTOR, BUT TALKS ARE NOT LIKELY TO RESUME BEFORE THE NEW YEAR. CHINA'S RECENT CHANGE OF FOREIGN MINISTERS IS ANOTHER DELAYING FACTOR. HMG DOES

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NOT BELIEVE THAT HANDLING OF THE HONG KONG ISSUE WAS AN ELEMENT IN THE MFA PERSONNEL CHANGES. THOUGH TALKS HAVE THUS FAR BEEN ONE-ON-ONE, HMG IS NOT AVERSE TO WIDENING EITHER SIDE'S TEAM AT A LATER STAGE, POSSIBLY WITH THE HONG KONG GOVERNOR JOINING IN. THE FCO DESCRIBED THE ATMOSPHERE OF THE TALKS AS "PLEASANT." IN EARLY SESSIONS, ZHANG STATED CHINESE WILLINGNESS TO CONDUCT TALKS, BUT ONLY ON THE PREMISE THAT CHINA WOULD RECOVER SOVEREIGNTY IN 1997. THE UK OBJECTED, AS THIS CONTRAVENED THE THATCHER-DENG AGREEMENT THAT THERE WOULD BE NO PRECONDITIONS. AT THE LAST SESSION THE UK STATED ITS WILLINGNESS TO DISCUSS SOVEREIGNTY, BUT ONLY AS ONE ELEMENT OO A AACKAGE ADDRESSING ALL FACETS OF HONG KONG'S FUTURE. ZHANG SAID HE WOULD REPORT THIS TO THE NEW FOREIGN MINISTER AND LET THE BRITISH KNOW WHEN THE CHINESE WERE READY FOR THE NEXT SESSION. THE BALL REMAINS IN THE CHINESE COURT.

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5. PUBLIC DISCUSSIONS: HMG SEES THE CHINESE PROPAGANDA CAMPAIGN AS AN ATTEMPT TO GRADUALLY ACCUSTOM THE HONG KONG PUBLIC TO THE IDEA OF A CHINESE TAKEOVER. THE FCO SEE NO POINT IN TRYING TO COUNTERACT THE PROPAGANDA AT THIS LEVEL, THOUGH THE UK HAS TAKEN SEVERAL PUBLIC STEPS (AS REF E POINTS OUT) TO REASSURE THE PEOPLE OF HONG KONG OF ITS COMMITMENT TO THEM.

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6. INTERMEDIARIES: THE UK IS ACTIVELY CONTINUING ITS EFFORTS TO EDUCATE THE CHINESE, BY ENCOURAGING A WIDE VARIETY OF HONG KONG AND FOREIGN BUSINESS PEOPLE TO EXPLAIN HONG KONG'S NEEDS TO PEKING. ACKNOWLEDGING THE RELUCTANCE OF THOSE FROM HONG KONG TO SPEAK CANDIDLY IN PEKING, THE FCO OFFICIAL SAID, "IT'S THEIR FUTURE: IF THEY AREN'T WILLING TO STAND UP FOR THEIR INTERESTS NOW, WHAT CAN THEY EXPECT?"

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THE FCO FEELS THE CHINESE HAVE BEGUN TO UNDERSTAND MORE OF THE LEGAL/FINANCIAL COMPLEXITIES OF HONG KONG'S SYSTEM, AND SEEM TO REALIZE THAT IT MUST BE PRESERVED FOR HONG KONG TO CONTINUE TO PROSPER. THE PHRASE "TWO SYSTEMS IN ONE COUNTRY" AND THE WORD "CAPITALISM" ARE BT

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APPEARING MORE AND MORE FREQUENTLY IN PUBLIC AND SECRET
PRC DOCUMENTS.

7. HOW UK SEES THE FUTURE: THATCHER'S PRIORITY IS TO "SEE HONG KONG ALL RIGHT" -- TO PROVIDE A CONTINUING, RELIABLE, TRUSTWORTHY SYSTEM OF GOVERNMENT THAT WILL ALLOW THE PEOPLE OF HONG KONG TO CONTINUE THEIR WAY OF LIFE UNDISTURBED. IF THIS CAN BE GUARANTEED, SOVEREIGNTY AND OTHER ISSUES ARE OPEN TO NEGOTIATION. THATCHER IS GENUINELY WILLING TO VARY THE OLD HONG KONG TREATIES AS SHE STATED IN HONG KONG. AS A LAWYER SHE HOLDS THE TREATIES AS STILL VALID -- BUT THEY ARE NOT SACRED. ON THIS QUESTION THE FCO OFFICIAL FELT LEHANE (REF A) HAD QUITE MISSED THE POINT. HMG IS THINKING IN TERMS OF A GRADUAL, PHASED HANDOVER OF FUNCTIONS TO HONG KONG/PRC CHINESE. THE PERIOD OF TURN-OVER COULD BEGIN AT ANY TIME AND END BEFORE, AT, OR AFTER 1997 -- OR ITS END COULD EVEN BE LEFT TO FURTHER NEGOTIATION. ALTERNATIVELY, A TURNOVER "NOTICE" MECHANISM COULD BE SET UP. HMG IS OPEN TO SUGGESTIONS. DURING THE HANDOVER PERIOD, CHINESE ADMINISTRATORS WOULD BE INCREASINGLY BROUGHT INTO ADMINISTRATIVE ROLES, GRADUALLY GAINING INCREASED EXPERIENCE AND UNDERSTANDING OF HONG KONG'S COMPLEX SYSTEM. WHILE MAINTAINING HONG KONG'S BASIC SYSTEM, THE UMBILICAL TIE TO LONDON COULD BE GRADUALLY DIMINISHED. FOR EXAMPLE, THE CHINESE SUGGESTION THAT HONG KONG HAVE ITS OWN COURT OF APPEAL RATHER THAN REMAIN TIED TO THE LONDON COURT, IS REGARDED BY FCO AS FEASIBLE. THE UK HAS NOT YET RAISED ANY OF THESE POSSIBILITIES WITH THE CHINESE. IT HAS NOT USED ANY STALKING HORSES OR CONFIDENTIAL, INFORMAL INTERMEDIARIES. THOUGH IT HAS REPEATEDLY SUGGESTED TO THE CHINESE THAT A NEW, "EQUAL" TREATY COULD SUPERCEDE THE OLD, "UNEQUAL" ONES, THE CHINESE HAVE NOT YET ACKNOWLEDGED THIS POSSIBILITY. HMG REMAIN HOPEFUL, HOWEVER, THAT AN AGREEMENT CAN BE REACHED. THEY ARE NOT OVERLY CONCERNED ABOUT THE INITIAL SLOW PACE OF THE TALKS, POINTING TO THE LONG PERIOD WHEN CHINA REFUSED EVEN TO TALK ABOUT THE FUTURE.

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8. UK DOMESTIC CONSIDERATIONS: THE UK ELECTORATE HAS NOT BEEN CONCERNED ABOUT HONG KONG. AS LONG AS THERE IS NO WAVE OF HONG KONG IMMIGRANTS TO BRITAIN OR A SERIOUS SETBACK FOR HONG KONG. RELATED BUSINESS AND BANKING, THATCHER DOES NOT ANTICIPATE THAT HONG KONG WILL BE A FACTOR IN THE UPCOMING BRITISH ELECTIONS. SHE IS FOLLOWING THE QUESTION CLOSELY, HOWEVER, AND CONTINUES TO SEE A STREAM OF VISITORS FROM HONG KONG, PICKING THEIR BRAINS TO KEEP TRACK OF THEIR CONCERNS. OUR CONTACT DENIED THERE WAS ANY FUNDAMENTAL DISAGREEMENT BETWEEN THE PM AND THE FCO OVER HONG KONG.

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9. REASONS FOR UK OPTIMISM, FINALLY, OUR RCO CONTACT LISTED FOUR "TRUMP CARDS" THAT FAVOR A POSITIVE OUTCOME TO THE TALKS:

- UK SOVEREIGNTY IS A POWERFUL BARGAINING CHIP.
- THE HONG KONG ECONOMY IS MUCH VALUED BY THE PRC.
-
- UK-PRC RELATIONS ARE GENERALLY EXCELLENT; COMMERCIAL, SCIENTIFIC AND CULTURAL TIES ARE GROWING.
- CHINA'S DESIRE TO ATTRACT TAIWAN BACK INTO THE FOLD CAN BE HELPED BY A SATISFACTORY HONG KONG AGREEMENT.

EXDIS

10. COMMENT: FOLLOWING THE QUESTIONING IN THE PRESS HERE OVER THATCHER'S PUBLIC STATEMENTS DURING HER FAR EAST TRIP, HONG KONG HAS FEATURED VERY LITTLE IN THE MEDIA. HMG APPEARS TO WANT TO KEEP IT THAT WAY AND TO BE CAREFUL NOT TO TAKE HASTY POSITIONS IN THE FORMAL TALKS. THE BRITISH ARE WATCHING SUCH KEY INDICATORS AS THE HONG KONG INDEX, PROPERTY VALUES, INTEREST RATES, CURRENCY
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FLOWS, AND CURRENCY EXCHANGE RATES, BEARING IN MIND THAT
PURELY ECONOMIC AS WELL AS POLITICAL FACTORS PLAY A ROLE.
THEY APPEAR TO BELIEVE THE VERY APPEARANCE OF UNHURRIED
CONFIDENCE MAY BECOME A SIGNIFICANT FACTOR IN MAINTAINING
HONG KONG'S STABILITY WHILE DISCUSSIONS TAKE THEIR
LEISURELY COURSE. END COMMENT. LOUIS
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E. O. 12356: DECL: OADR
TAGS: XE, PINR, CH, UK, HK
SUBJECT: INR'S EAST ASIA AND PACIFIC WEEKLY HIGHLIGHTS,
DECEMBER 12-18, 1982, REPORT NO. 47, SUPPLEMENT 1

HK

1. SINO-BRITISH DISCUSSIONS ON HONG KONG

A. NEITHER CHINA NOR BRITAIN HAS YIELDED ON CONDITIONS FOR STARTING FORMAL NEGOTIATIONS ON THE FUTURE OF HONG KONG, ACCORDING TO A KNOWLEDGEABLE SOURCE. THE CHINESE CONTINUE TO INSIST THAT BRITAIN ACKNOWLEDGE CHINESE SOVEREIGNTY OVER THE COLONY BEFORE DISCUSSIONS BEGIN; THE BRITISH PREFER WORKING OUT THE DETAILS OF HONG KONG'S FUTURE ADMINISTRATION BEFORE CONSIDERING THE SOVEREIGNTY ISSUE.

B. DESPITE THIS APPARENT IMPASSE--AND THE POSSIBILITY THAT MRS. THATCHER'S POSITION HAS HARDENED WITH RESPECT TO THE VALIDITY OF THE 19TH CENTURY TREATIES AND HER MORAL RESPONSIBILITY TO THE PEOPLE OF HONG KONG--BRITISH OFFICIALS ARE ENCOURAGED THAT THE SERIOUS ATTENTION THE CHINESE ARE GIVING TO BRITISH PROPOSALS PRESAGES AN EVENTUAL WILLINGNESS TO BARGAIN. SPECIFICALLY, THE BRITISH ARE OFFERING TO "EDUCATE" THE CHINESE ON THE ADMINISTRATIVE REALITIES OF GOVERNING HONG KONG AND ARE SUGGESTING THAT FORMAL ARRANGEMENTS WORKED OUT BY LONDON AND BEIJING BE CODIFIED IN A CONSTITUTION

WRITTEN BY REPRESENTATIVES OF THE PEOPLE OF HONG KONG.

C. AS PART OF THOSE ARRANGEMENTS, THE BRITISH WANT TO APPOINT THE DEPUTY GOVERNOR (THE GOVERNOR WOULD BE A HONG KONG CHINESE) AND ALL OTHER ADMINISTRATORS. THIS WOULD LEAVE THE BRITISH IN CONTROL OF DAY-TO-DAY OPERATIONS, A SITUATION THAT THE CHINESE HAVE ALREADY INDICATED IS UNACCEPTABLE. ACCORDING TO ANOTHER KNOWLEDGEABLE SOURCE, THE CHINESE CONTINUE TO PUSH THE CONCEPT OF SPECIAL ADMINISTRATIVE ZONE (SAZ), ENVISIONING THE DEPARTURE OF THE BRITISH AND THEIR REPLACEMENT BY LOCAL CHINESE IN ALL AREAS OF ADMINISTRATION. STILL, BEIJING MAY BACK AWAY FROM THIS STAND IF HONG KONG RESIDENTS FAIL TO ACCEPT CHINESE ASSURANCES THAT NOTHING WILL CHANGE IN HONG KONG AFTER 1997. BY ACCEPTING A ROLE FOR THE BRITISH EXPATRIATES WITHIN THE FRAMEWORK OF THE SAZS, FOR EXAMPLE, THE CHINESE HAVE DEMONSTRATED THAT THEIR INTRACTABLE RHETORIC ON SOVEREIGNTY DOES NOT PRECLUDE FLEXIBILITY ON SUBSTANTIVE ISSUES. IT IS UNCLEAR, HOWEVER, WHETHER FLEXIBILITY CAN BE TRANSLATED INTO CONFIDENCE. (RGOLDBERG) DAM
BT

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92338	CABLE RE HONG KONG	3	12/23/1982	B1 B3

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

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

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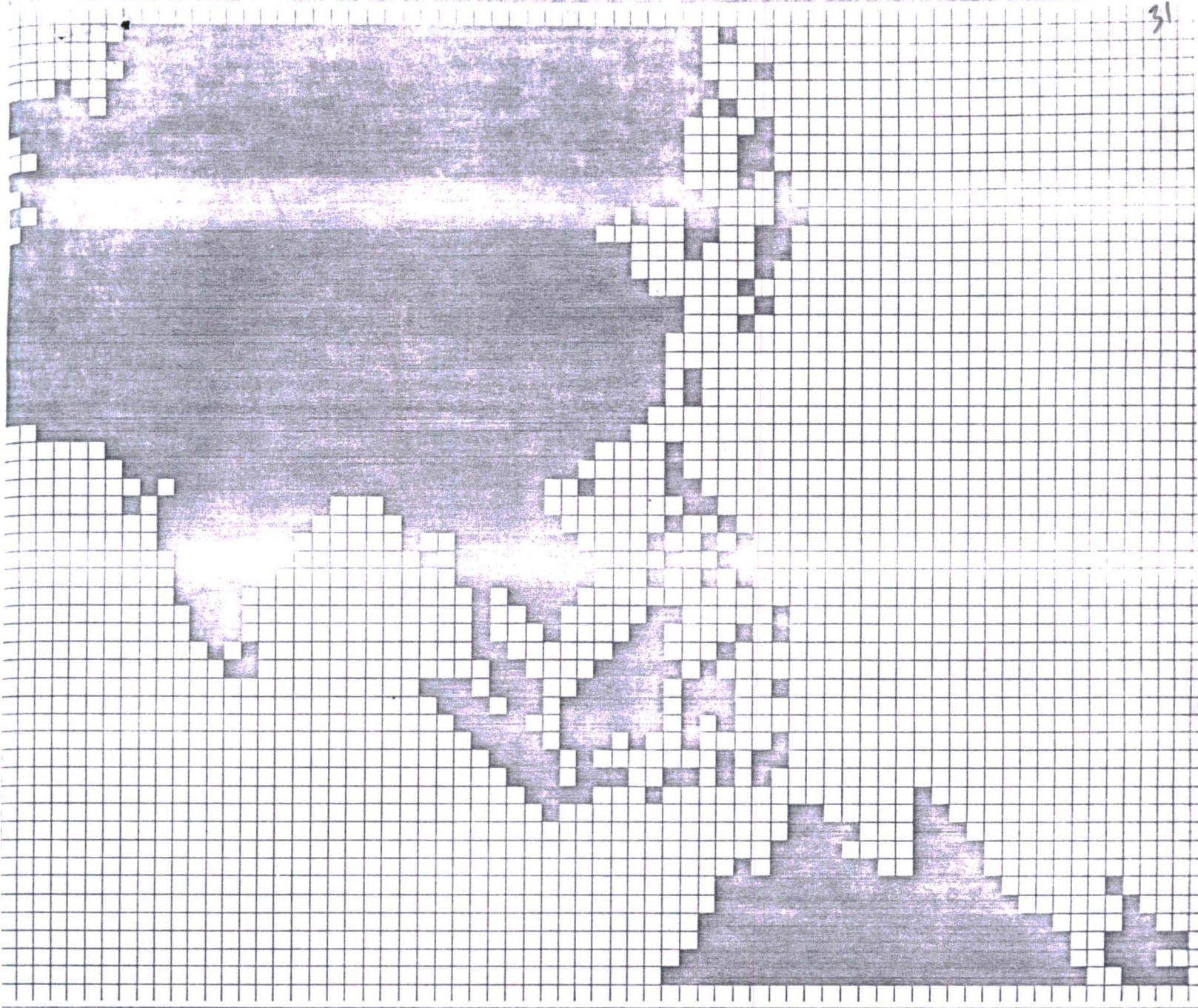
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92340	CABLE RE HONG KONG	2	12/30/1982	B1 B3

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Economic Research Department

F.10 → *HK*

JANUARY 1983

CHEMICAL BANK

HONG KONG

The Hong Kong economy has been hit by the negative effects of world recession and uncertainties concerning the future political status of the colony. The modest recovery we expect in the U.S. economy in early 1983 will not benefit Hong Kong until at least second-quarter 1983. Domestic activity in Hong Kong has waned, with investor confidence reduced by liquidity strains and exports suffering from slack foreign demand. Hong Kong's economic growth for 1982 is estimated at less than half the 1981 rate. On the brighter side, inflation has slowed substantially and Hong Kong's trade and current account deficits have narrowed. Activity should pick up somewhat in second-half 1983, but growth is unlikely to match the very rapid rates of recent years.

Growth

Hong Kong's real GDP growth rate decelerated significantly in 1982, reflecting the effects of recession abroad and some concern over Hong Kong's future. Inconclusive talks between U.K. and PRC officials about the future administration of Hong Kong created uncertainty which resulted in sharp short-term declines in the stock market and the value of the Hong Kong dollar and led to some temporary strains in the financial market. Whereas in 1981 Hong Kong experienced strong domestic demand and export growth, these sources of stimulus slowed in 1982 and are unlikely to revive until around mid-1983. Private consumption expenditures grew more slowly in 1982, and the stimulus provided by the property and stock markets in 1981 was absent. Land prices are declining, and there is an oversupply of apartment and office space. The manufacturing sector, the largest employer in Hong Kong, has been negatively affected by weak overseas demand for Hong Kong exports.

Investment by the government in public housing and in large projects like the Mass Transit Railway has grown rapidly, but lower-than-anticipated revenues are likely to lead to Hong Kong's first budget deficit since FY1974/75 (ending March 31). Hong Kong's financial and service sectors are performing relatively well. In 1983 Hong Kong's economic growth should accelerate to about 5½% as the pickup in activity abroad increases demand for the colony's exports and boosts manufacturing production. The financial and service sectors, however, will continue to be the major growth sectors. Public spending is likely to be constrained by lower revenues from land sales, traditionally the government's single largest revenue source, and uncertainty about Hong Kong's future will persist.

Inflation

Hong Kong's inflation rate decelerated substantially in 1982. Money supply growth slowed, domestic demand was weaker, property prices and rents declined, and inflation abroad decelerated. For 1983 we expect inflation to slow further to about 9½%. Although increased economic activity in second-half 1983 and continued weakening of the Hong Kong dollar will create upward pressures on inflation, the rate will be reduced by sluggish demand in the first half of the year and by weakness in rents and property prices.

Labor

Hong Kong's employment situation has deteriorated somewhat over the past year, but unemployment is still at a very low rate of about 3½%. The recession is most evident in the manufacturing sector, where employment apparently did not increase in 1982 and real wages have been growing very slowly. In the services sector, employment and wages have continued to rise. Over the medium term, wages in the financial and services sectors can be expected to continue outpacing those in manufacturing.

External Sector

Since late 1981 the effects of weak external demand have become evident in Hong Kong's external accounts. The colony's exports and imports experienced sharply slower growth in 1982 in Hong Kong dollar terms (about 3½% and 3%, respectively) and declined in U.S. dollar terms--due to the Hong Kong dollar's depreciation. The greater slowdown in imports than exports resulted in a smaller trade deficit in both currencies. No significant pickup in export growth is expected until at least second-quarter 1983. Import growth, however, is also likely to accelerate, resulting in a somewhat larger HK\$ trade deficit. The depreciation of the colony's currency will probably result in unchanged exports and imports in U.S. dollar terms.

The invisibles surplus is estimated to have declined slightly last year. Earnings from shipping and other services are unlikely to have shown much improvement, given the generally depressed world economy. Net tourism earnings probably decreased as foreign travel by Hong Kong residents grew at least as rapidly as tourism to the colony. In 1983 service earnings may rise somewhat, but net tourism receipts are likely to decline again. Although the current account deficit should be stable, it is likely that capital outflow will increase from pre-1982 levels because of investor nervousness, but this should level off in the medium term as the future of Hong Kong is more clearly defined.

	<u>1966-73</u> (annual average)	<u>1973-80</u> (annual average)	<u>1981</u>	<u>1982e</u>	<u>1983</u> forecast
Real GDP (% change)	9.1	9.4	11.0	3.5	5.5
Consumer Prices (% change)	7.7	8.4	15.0	10.5	9.5
	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982e</u>	<u>1983</u> forecast
	(billion U.S. dollars)				
Exports	15.2	19.7	21.8	20.7	20.7
Imports (c.i.f.)*	17.2	22.4	24.7	23.3	23.3
Trade Balance (Adjusted)**	-2.1	-2.7	-3.1	-2.6	-2.6
Net Services and Transfers	1.6	1.6	1.6	1.5	1.5
Current Account Balance	-0.5	-1.1	-1.5	-1.1	-1.1

*Including imports of water

**Adjusted to account for imports of gold for industrial and commercial use.

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TO : DEPARTMENT OF STATE

INFO: BEIJING, GUANGZHOU, SHANGHAI, TAIPEI, TOKYO

FROM : AMCONSUL HONG KONG

SUBJECT: HONG KONG STEEL MAGNATE ON MEETING WITH LIAO CHENGZHI

REF TAGS: CH, HK, UK, PEPR, PINT, PINR

E.O. 12356: DECL: OADR

SUMMARY

A RELIABLE MEMBER OF THE HONG KONG FACTORY OWNERS DELEGATION TO BEIJING HAS CONFIRMED MANY OF THE POINTS THE GROUP LEADER HAD EARLIER MADE TO CONGENOFFS CONCERNING LATE NOVEMBER DISCUSSIONS WITH NPC VICE CHAIRMAN LIAO CHENGZHI. LIAO EMPHASIZED THAT AFTER THE PRC REGAINS SOVEREIGNTY OVER HONG KONG IN 1997, BRITISH ADMINISTRATION WILL END, AND THE GOVERNMENT WILL BE LEFT TO HONG KONG CHINESE. THE PRC HAS EXERCISED SOME CAUTION IN PUBLICIZING LIAO'S REMARKS, PERHAPS BECAUSE THE TOP LEADERS HAVE NOT YET MADE FIRM DECISIONS ON THE FUTURE OF HONG KONG OR BECAUSE THEY DO NOT WISH TO PERTURB EXCITABLE HONG KONGERS.

END SUMMARY

POLOFF RECENTLY MET WITH LOCAL STEEL MAGNATE FRANK PONG TO DISCUSS HIS LATE NOVEMBER MEETING WITH NPC VICE CHAIRMAN LIAO CHENGZHI AS A MEMBER OF THE HONG KONG FACTORY OWNERS DELEGATION. PONG TOOK DETAILED NOTES ON THE MEETING AND SEPARATELY BRIEFED POLOFF AND THE BRITISH POLITICAL ADVISOR'S OFFICE ON LIAO'S REMARKS. THE BRITISH HAVE VOUCHERED FOR PONG'S RELIABILITY, EXPLAINING THAT THEY HAVE INDEPENDENT CONFIRMATION OF PONG'S VERSION OF THE MEETING WITH LIAO. THE PONG FAMILY EVIDENTLY HAS A FAIRLY CLOSE RELATIONSHIP WITH LIAO, WHO FREQUENTLY ENTERTAINS FRANK PONG'S PARENTS AT HIS HOME.

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~~CONFIDENTIAL~~

FORM 4-62 DS-323
Drafted by: POL: TLONG/JSTROTZ/LJ
Clearances: POL: HEMEINHEIT

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DATE: 04 Jan 1983

(HK)

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BY KML NARA DATE 6/23/12

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Contents and Classification Approved by: ACG: RL WILLIAMS

THE BRINK OF DEPRESSION. (COMMENT: WE DOUBT WHETHER SUCH ASSURANCES CONCERNING CHINA'S ECONOMIC PROSPECTS CARRIED MUCH WEIGHT WITH THE HONG KONG CAPITALISTS. END COMMENT.)

WHILE VERY DEFINITE ON CHINA'S EVENTUAL GOAL TO ASSUME ADMINISTRATION OF HONG KONG, LIAO WAS VAGUE ON SPECIFICS AND DID NOT GIVE CLEAR ANSWERS TO THE DELEGATION'S QUESTIONS CONCERNING PASSPORTS AND CURRENCY IN THE POST-1997 ERA. THE VICE CHAIRMAN MERELY REPLIED THAT HONG KONGERS WOULD BE TREATED LIKE OTHER OVERSEAS CHINESE FOR PURPOSES OF TRAVEL, AND THAT SUITABLE SOLUTIONS TO OTHER QUESTIONS WOULD EVENTUALLY BE WORKED OUT. AS FOR PROPERTY OWNERSHIP, LIAO EXPLAINED THAT INDIVIDUALS COULD HAVE TITLE TO THEIR HOMES BUT THAT THE LAND WOULD BELONG TO THE STATE. (COMMENT: PONG DID NOT CONFIRM HUANG JIAN'S REPORT THAT THE HONG KONG AND SHANGHAI BANK AND CHARTERED BANK COULD CONTINUE TO ISSUE CURRENCY UNDER PRC RULE OR THAT BEIJING WOULD TRY TO CHANNEL FUNDS AWAY FROM SPECULATIVE ACTIVITIES AND TOWARD INDUSTRY. END COMMENT.) DESPITE THE LACK OF SPECIFICITY, MOST MEMBERS OF THE DELEGATION WERE OPTIMISTIC ABOUT HONG KONG'S FUTURE AFTER TALKING WITH LIAO AND BELIEVED THAT BEIJING WOULD PROCEED RATIONALLY IN NEGOTIATIONS WITH LONDON.

PONG SENSED THAT OTHER PRC OFFICIALS WERE MORE RELAXED WITH THE GROUP AFTER LIAO HAD EXPLAINED THE PARTY LINE TO THE DELEGATION. PONG WAS PARTICULARLY IMPRESSED WITH THE HOSPITALITY OF A TIANJIN VICE MAYOR, WHO LIKE LIAO, PREDICTED THAT HONG KONG WOULD NOT BE FULLY INTEGRATED WITH CHINA FOR ANOTHER 100 TO 200 YEARS. THIS OFFICIAL ALSO STRESSED THE IMPORTANCE OF MAINTAINING A FAVORABLE INVESTMENT CLIMATE AND ECONOMIC STABILITY AS WELL AS INSURING THE WELFARE OF HONG KONG'S 5.5 MILLION CHINESE.

COMMENT: THE CHINESE HAVE REPORTED LIAO'S STATEMENTS WITH CONSIDERABLE CAUTION, REVEALING ONLY SOME OF THEM IN THE LOCAL PRC AFFILIATED PAPERS AND GIVING NO CLUE OF HIS REMARKS IN THE MAINLAND PRESS (HK 20001). THE LOCAL XINHUA OFFICE ALSO ASKED DELEGATION LEADER HUANG JIAN TO REFRAIN FROM PUBLICIZING LIAO'S COMMENTS, BUT THE BUSINESSMAN WAS NOT TO BE SILENCED. REFLECTING DISPLEASURE WITH THE UNRULY HONG KONGER, A XINHUA REPRESENTATIVE IN A PRIVATE CONVERSATION WITH CONGENOFF CAST ASPERSIONS ON HUANG JIAN'S VERACITY (HK 20038).

BEIJING'S CAUTION IN PUBLICIZING LIAO'S REMARKS MAY SUGGEST THAT THE VICE CHAIRMAN'S COMMENTS WERE INTENDED FOR A SELECTED AUDIENCE AND DID NOT REFLECT CONCRETE DECISIONS CONCERNING THE FUTURE OF HONG KONG. DA GONG BAO PUBLISHER FEI YIMING TOLD CONGENOFFS THAT LIAO WAS NOT THE LEADING

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92342	CABLE 121805Z JAN 83	1	1/12/1983	B1 B3

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

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92343	CABLE 121825Z JAN 83	1	1/12/1983	B1 B3

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92344	CABLE RE HONG KONG	2	1/22/1983	B1 B3

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