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The dollar drops again as China restates its case

# A turn of the screw

By Mary Lee



Hongkong is suffering a new bout of jitters about its political future. The cause is new Chinese statements and moves to underline that the return of sovereignty will not be simply symbolic, but will effectively exclude official British participation in the territory's administration after 1997.

The result of the unease has been a further drop in the value of the Hongkong dollar, which fell back to HK\$6.83 against the US unit and to a new low of 76.5 on its trade-weighted index. At the same time the stockmarket has showed renewed weakness despite bullish performances in New York, Tokyo and Singapore.

The immutability of China's plan to recover Hongkong in 1997 — when Britain's lease on 89% of the territory expires — and turn it into a special administrative region (SAR) with a high degree of autonomy may be confirmed in June when the Sixth National Peoples' Congress (NPC) meets in Peking. A final draft for the Hongkong SAR, similar to a nine-point proposal to Taiwan made in September 1981 by now-retired NPC chairman Ye Jianying, has to be drawn up and must be passed by the Chinese Communist Party Politburo before it is presented to the NPC.

The NPC endorsement will take China's plans for the future of Hongkong much further than Article 31 of the state constitution, which was passed last December and which is generally regarded by local Chinese as an inadequate assurance of Peking's intention to maintain stability and prosperity. Article 31 merely says "the state may, where necessary, establish SARs. The rules and regulations in force in SARs shall be stipulated by law according to specific conditions."

China is also re-emphasising the importance of the Hongkong sovereignty issue. A *Beijing Review* article quoted by the official Xinhua newsagency on April 19 listed modernisation, the return of Taiwan and the recovery of sovereignty over Hongkong as "three major tasks, the fulfilment of which will make it possible for China to step into the 21st century as a modernised and fully unified socialist nation." Although there was nothing new in China's position on sovereignty, many in Hongkong saw insistence on equating the Hongkong issue with Taiwan and modernisation as an escalation of its importance.

The article also mentioned the recovery of sovereignty over Macau "within a suitable period of time." This was regarded as significant because sovereignty has not been at issue in the same sense as in Hongkong, because Portugal does not claim sovereignty. Hu's November statement had not mentioned Macau. The author of the article also said recovery of sovereignty of the territories was more important than prosperity. "No nation can sacrifice sovereignty for prosperity." This cast a new light on the Sino-British talks the goal of which is said to be the maintenance of "stability and prosperity" for Hongkong.

There have been several recent indications of China's intention to draw up a Hongkong SAR formula, the objective of which is to empower the territory to make its own local laws. In January, Liao Chengzhi, vice-chairman of the NPC and head of the Hongkong-Macau office, told a visiting group of Hongkong New Territories village leaders that "China is working on a draft formula which has yet to be presented to Britain... The format of Hongkong people administering Hongkong [gangren zhigang] can only be implemented after it is presented and recorded by the NPC. This is the only requirement." The *REVIEW* understands this draft format was drawn up in February and March.

The *REVIEW* has confirmed that it was Britain's discovery of the existence of the Hongkong SAR format which precipitated a hastily arranged week-long trip to London by British Ambassador to Peking Sir Percy Cradock and Hongkong Governor Sir Edward Youde on March 5. Local sources say Britain is anticipating a June promulgation at the NPC and the London conference was to formulate a British response.

What effect China's move will have on the Sino-British talks to resolve the 1997 question — which have been deadlocked for some months on the sovereignty issue — is uncertain, but a unilateral announcement by Peking is virtually certain to have disastrous repercussions on the weak Hongkong dollar and jittery local investors. Any conciliatory statements issued afterwards, either jointly or by either side, can at best paper over fundamental cracks in confidence.

Essentially, the talks are getting nowhere because Britain wants to leave the sovereignty issue aside for the moment and, talk about the future administrative arrangements for Hongkong, China wants sovereignty to be acknowledged now and the talks to concentrate on achieving a smooth transition to Chinese rule by 1997.

Peking is unable to state categorically that it will not recover Hongkong until

## Hongkong and reunification



In an interview with China's official Xinhua newsagency on September 30, 1981, the then constitutional head of state, Ye Jianying, proposed nine points for the reunification of Taiwan with China. Several of those points have relevance to the Hongkong debate. Ye said:

- ▶ After the country is reunified, Taiwan can enjoy a high degree of autonomy as a special administrative region and it can retain its armed forces. The central government will not interfere with local affairs on Taiwan.
- ▶ Taiwan's current socio-economic system will remain unchanged, as will its way of life and its economic and cultural relations with foreign countries. There

will be no encroachment on the proprietary rights and lawful right of inheritance over private property, houses, land and enterprises, and no interference on foreign investments.

- ▶ People in authority and representatives of various circles in Taiwan may take up posts of leadership in national political bodies and participate in running the state.

- ▶ For people of all nationalities and public figures of various circles in Taiwan who wish to settle on the mainland, it is guaranteed that proper arrangements will be made, that there will be no discrimination against them and that they will have the freedom of entry and exit.

- ▶ The reunification of the motherland is the responsibility of all Chinese. We sincerely welcome people of all nationalities, public figures of all circles and all mass organisations in Taiwan to make proposals and suggestions regarding affairs of state through various channels and in various ways.

June 30, 1997 — not for fear that such a declaration would imply its acceptance of the legality of what it calls the unequal treaties under which Britain gained control over Hongkong, but in case the British refuse to cooperate in the maintenance of stability and prosperity, thereby igniting social unrest. China's refusal to be bound by anything apart from its stated hopes of a peaceful transition signifies Peking's awareness of Hongkong's fragility — an awareness which could also delay announcement of the SAR format until some agreement has been reached at the 1997 talks.

But there can be little doubt remaining of Peking's attitude. A delegation of local academics, which visited Peking in early April and met with Liao and his deputies, returned with further confirmation of China's hardening line on recovering Hongkong in 1997. One member of the group told the REVIEW: "We were told that recovering Hongkong in 1997 is national policy" — the first time that a date has been added to the declared national objective of reunification.

"They were very firm that the governor must go in 1997 and the Union Jack must come down," the member said.

Chinese pressure on the local population to accept self-administration is also growing. The local pro-Peking daily, *Ta Kung Pao*, in a report on the group's visit, said: "Peking regards Hongkong compatriots as 'our own people' and solicits their opinions on how to maintain Hongkong's prosperity and stability as well as how to implement its self-administration." What the paper did not say was that this statement, made by Liao, had been given as a reply to a question concerning the role of Youde in representing Hongkong's people.

Liao said that the governor could only represent British interests, a member of the group told the REVIEW. While it would have been undiplomatic of a pro-Peking newspaper to publish this, the information was nevertheless carried by an independent Hongkong Chinese daily, the *Economic Journal*.

The Chinese leadership's willingness to listen to Hongkong opinions on 1997 takes the form of arranging visits to Peking by local groups. The next delegation — a group of local businessmen and professionals including three Hongkong legislative councillors — is due to visit Peking in mid-May. The Hongkong branch of Xinhua — which serves as Peking's unofficial diplomatic office in Hongkong — also solicits views from interest groups.

However, soundings of local opinions have so far done nothing to soften China's stand. Some large entrepreneurs have put it bluntly that without a British presence to underpin existing policies and freedoms, they would not have the confidence to reinvest. Their children were already emigrating. Professional and middle-class people pretend to like the idea of self-ad-



Thatcher and Youde: the going gets rougher.

ministration, but doubt whether in practice it would guarantee the continuance of the rule of law and the social and economic freedoms to which they have become accustomed.

But whatever local views may be, the firmest indication so far that there is no room for London to manoeuvre for a continuation of British administration after 1997 comes from the repetition of the line that the central government would find it impossible to account for such a "solution" to the Chinese nation.

The reiteration of this attitude — which first emerged in January in the local pro-Peking press and was most recently stated by the governor of Fujian province — puts beyond doubt the unviable option of a "lease-back" or management-contract formula. It also confirms that national dignity is far more important than loss of foreign-exchange earnings through Hongkong, which Liao has estimated at US\$6 billion — a third of China's total. As one observer put it: "The leadership can always justify the loss of foreign exchange as the price for national dignity, but not vice versa."

But what has national dignity, many ask, to do with ending British rule in 1997, particularly as China does not recognise the so-called unequal treaties? One view puts it thus: Peking will say that while it does not recognise the treaties and, by extension, the New Territories lease expiry, it recognises the need for a peaceful transition from British to Chinese rule. That transition, in Peking's view, should be completed 14 years from now.

For China, national dignity has a link with the bigger problem of achieving reunification with Taiwan. Peking must now show Taiwan that it is determined to maintain Hongkong's stability and prosperity as an SAR without the British presence. Such an interpretation removes the Taiwan card as a British trump; many analysts had previously argued that China's desire to maintain stability and prosperity meant maintaining the status quo, with British administration somehow being al-

lowed to continue past the 1997 deadline.

Meanwhile, Peking's campaign to exert pressure on local Chinese to accept the self-administration plan is expected to be taken a step further. A record number, 24, of Hongkong and Macau Chinese were recently appointed to the Guangdong provincial branch of the Chinese People's Political Consultative Conference, a united-front organisation. Another 45 were appointed to the Guangdong Provincial People's Congress, and 16 Hongkong residents were made deputies to the NPC.

The significance of this unprecedentedly large Hongkong presence in China's constitutional bodies transcends the fact that the vast majority of the appointees are not public figures. Their appointments merely show that China wants to enlarge its influence on sectors of the local population — trade unions, schools, intellectuals and small businessmen — that are seldom in the headlines but nevertheless form the base of the territory's society.

Local united-front support for China's stand on Hongkong was expected to be expressed on May 1 at celebrations organised by pro-Peking bodies to mark Labour Day. Heads of various worker and trade organisations under the umbrella of the leftwing Federation of Trade Unions were expected to endorse Peking's recovery of sovereignty and the maintenance of stability and prosperity under self-administration.

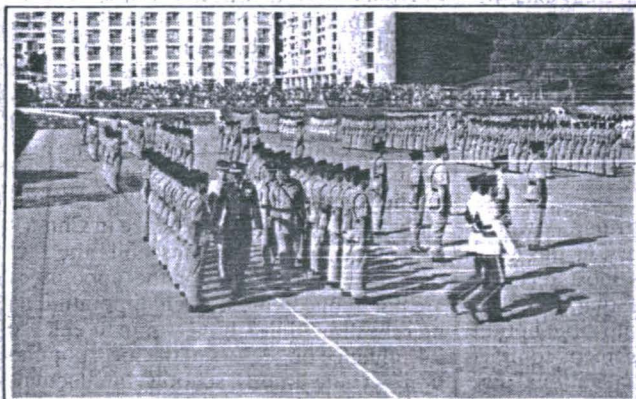
Where does all this leave the British? London's goal is to remove the 1997 barrier to existing perceptions of stability and prosperity, and keep Hongkong a borrowed place (under British administration) but no longer living on borrowed time. Once the 1997 hurdle is cleared, and Hongkong is officially classified as Chinese territory under foreign administration, local administrative reforms are bound to follow. What the Chinese refuse to understand is that a future British administration may be no more than a British governor, or that under such an arrangement, Peking's wish for full self-administration would then be realised as a matter of course and with the support of

the local population. Peking however, continues to insist that sovereignty is the main issue and that discussions — which can proceed only after Britain concedes sovereignty — should only be on arrangements for the transitional period up to 1997.

There are also indications that Chinese unwillingness to consider any formula for a continuation of British administration after 1997 has reached the point where it would be useless for London or anyone else to try to impress on Peking that post-1997 British administration has little to do with colonialism or economic benefits for Britain. Peking has apparently conceded that Britain gets little out of Hongkong economically.

The Hongkong Government has been sending out its officials to stress the de facto autonomy which the territory already enjoys under London's rules. The attorney-general himself dealt with the importance of a stable and reliable legal system and an independent judiciary as cornerstones of confidence in Hongkong's official yearbook.

The British thus appear to be doing little more than taking rearguard action,



Police on parade: worries about the takeover.

while at the same time trying to get the Chinese to put aside the sovereignty issue so that the talks can get down to working arrangements for Hongkong.

Youde's straightforward plea to the local population "to be a little patient, the discussions are complicated and the issues are important, so it will take a little time" is virtually drowned by the barrage from Peking. Whether a louder and stouter stand by Youde and his colleagues in Whitehall will follow in June is uncertain. Under British Prime Minister Margaret Thatcher's rules, confidentiality is all-encompassing.

Meanwhile, the questions concerning the integrity of the proposed self-administration — who will appoint the administrators and Hongkong's relationship with Peking — as well as the problems of freedom of movement of capital, currency and compatriots remain outstanding and are unlikely to be answered by the promulgation of the SAR details. However, Peking is already talking of local input in the drawing-up of a Hongkong constitution.

In the end, though, it is still a matter of whether Peking's plans can be digested without fatal hiccups in Hongkong. ■

# A backdoor to Britain

The fact that some Hongkong civil servants may get round the Nationality Act touches a sensitive nerve



A recent controversy started by London newspapers over future discretionary grants of British citizenship to Hongkong Government servants has awakened a sensitive issue: the obligation to protect senior Chinese officials serving an alien authority from the consequences of political change.

The reports stated that some British MPs had expressed fears of a possible massive influx of Hongkong Chinese through a loophole in the recent Nationality Act. The British papers have thus publicised, for the first time, a known reluctance on London's part to accept legal responsibility for Hongkong's population should Sino-British talks on Hongkong's future fail to reach an agreement acceptable to the local people. Formerly known as citizens of the United Kingdom and Colonies, 2.6 million Hongkong British passport holders have been reclassified as British dependent territory citizens, since the Nationality Act came into force last January.

Stringent rules of patriality disqualify virtually all such citizens from applying for British citizenship, which brings with it the right of abode in Britain. However, one clause in the act allows crown servants of the government of a dependent territory, as well as non-civil servants who were appointed by the local administration to serve on statutory bodies, to bypass the patriality rules.

During the passage of the controversial Nationality Bill last year, this discretionary clause — inserted as a result of pressure from the Hongkong Government — went almost unnoticed in London. However, Home Office Minister Timothy Raison stated then: "The intention here is to recognise the position of those who serve the crown in the dependencies in a particularly deserving way. This discretion would be exercised only sparingly."

Hongkong civil servants are now applying for such citizenship due to the prevailing uncertainty over the territory's future after 1997, when Britain's lease from China on most of the territory runs out. The police force's local inspectors' association has circulated a letter to its 1,000 members, asking them to explain their

special circumstances which the British home secretary should take into account when considering their applications for British citizenship.

Some local members of the force, as well as civil servants whose jobs bring them into contact with squatters and hawkers, are worried that a change of administration in 1997 could subject them to revenge from those groups they have arrested or seriously inconvenienced in the course of performing their duties.

The inspectors maintain publicly that they have not yet submitted any applications for citizenship. However, the REVIEW understands that some 200 middle-rank or senior civil servants have applied. Said one applicant: "I would like to know what the Home Office means by 'particularly deserving' of British citizenship."

The government refuses to disclose the number of citizenship applications, maintaining that "it is a matter between the individual and the British Government." However, an official did comment that the REVIEW's figure of 200 was "way off base." The number is such, he said, "as not to warrant the conclusion that the Hongkong Government is in a dilemma." There are about 370 Hongkong Chinese in the directorate ranks of the civil service. The other 480 directorate-level staff are expatriates.

Civil servants, like most of the middle class generally, feel that China's self-administration proposal is no guarantee of non-interference from Peking. Many have told the REVIEW that their friends in the private sector are all preparing to emigrate. "It's all very unsettling," one said.

The existence of this discretionary clause, however, has the potential of affecting morale within the civil service. A civil service union leader told the press that if qualifying for British citizenship rested on rank and loyalty, it raised questions about what loyalty meant. If only those who would not challenge any government policies were considered loyal, then the civil service machinery would be adversely affected, he said.

With London willing to grant only a few of the 40,000-strong civil service British citizenship, it is unlikely that Peking would feel threatened by a brain drain of experienced local government administrators, who Peking already has acknowledged would play a vital role in the future administration of Hongkong. Without this threat, Peking will perhaps be less willing to consider a solution to the problem of Hongkong's future which would allow a continuation of British administration after 1997.

—MARY LEE

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