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WITHDRAWAL SHEET

Ronald Reagan Library

Collection Name LAUX, DAVID: FILES

Withdrawer

CAS 6/9/2010

File Folder CHINA-FOREIGN RELATIONS-HONG KONG (8/25/82-9/16/82)

FOIA

M09-299/1

Box Number 13

COLLINGS

6

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions	
92266	PAPER	RE HONG KONG D 12/20/2017 M299/1	5	8/25/1982	B1	B3
92267	CABLE	HONG KONG 13893 R 6/21/2012 M299/1	2	8/26/1982	B1	
92268	CABLE	LONDON 19042 R 6/21/2012 M299/1	1	8/31/1982	B1	
92269	CABLE	RE HONG KONG D 12/20/2017 M299/1	1	9/1/1982	B1	B3
92270	FAX COVER SHEET	PAR 12/20/2017 M299/1	1	9/1/1982	B1	B3
92271	MEMO	TO LAUX RE HONG KONG PAR 12/20/2017 M299/1	1	9/1/1982	B1	B3
92272	PAPER	RE HONG KONG D 12/20/2017 M299/1	5	8/25/1982	B1	B3
92273	TRANSMITTAL SLIP	PAR 12/20/2017 M299/1	1	9/1/1982	B3	
92274	HISTORY	OF HONG KONG R 12/20/2017 M299/1	13	ND	B1	B3

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

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

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

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

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

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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
92275	MEMO	LAUX TO EDWIN HARPER RE BRIEFING MATERIAL FOR HONG KONG TRIP <i>R 12/20/2017 M299/1</i>	1	9/9/1982	B1
92276	PAPER	SAME TEXT AS 92266 <i>D 12/20/2017 M299/1</i>	5	8/25/1982	B1 B3
92277	CABLE	HONG KONG 13165 <i>R 6/21/2012 M299/1</i>	2	8/16/1982	B1
92278	CABLE	LONDON 19042 <i>R 6/21/2012 M299/1</i>	1	8/31/1982	B1
92279	PAPER	RE HONG KONG (DUPE OF 92241) <i>R 12/20/2017 M299/1</i>	2	ND	B1 B3

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92266	PAPER RE HONG KONG	5	8/25/1982	B1

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Department of State

92267 TELEGRAM

PAGE 01 HONG K 13893 01 OF 02 261108Z
ACTION EA-12

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R 261018Z AUG 82
FM AMCONSUL HONG KONG
TO SECSTATE WASHDC 2722
INFO AMEMBASSY BEIJING
AMEMBASSY TOKYO
AMEMBASSY LONDON
AMCONSUL SHANGHAI
AMCONSUL GUANGZHOU
AIT TAIPEI

~~SECRET~~ SECTION 01 OF 02 HONG KONG 13893

NOFORN

E.O. 12356: DECL: OADR
TAGS: PEPR, ECON, HK, CH, UK
SUBJECT: 1997: RUMORED CHINESE PLAN

REFS: A) HONG KONG 13029, B) HONG KONG 12051

1. (S/NF) SUMMARY: THE STORY OF A CHINESE "PLAN" FOR POST-1997 HONG KONG -- INCLUDING A CHINESE GOVERNOR AND THE CHINESE FLAG FOR FLYING OVER THE TERRITORY -- CONTINUES TO CIRCULATE, SURFACING MOST RECENTLY IN PRIVATE REMARKS OF GUANGDONG PROVINCE GOVERNOR TO A VISITING HONG KONG BUSINESS LEADER. WHILE THE HONG KONG GOVERNMENT (HKG) AGREES THAT THE CHINESE ARE SERIOUSLY CONSIDERING SUCH ARRANGEMENTS, AMONG OTHERS, IT APPEARS CONFIDENT THAT BEIJING IS IN NO HURRY TO DECIDE EXACTLY HOW HONG KONG SHALL BE RULED OR BY WHOM. THE U.K. HAS, HOWEVER, INFORMED BEIJING THAT IT WANTS PRIME MINISTER THATCHER'S VISIT TO PRODUCE AN AGREEMENT TO CONSULT ON THE COLONY'S FUTURE. END SUMMARY.

2. (C) REPORTS CONTINUE TO CIRCULATE HERE OF A CHINESE PLAN TO SET HONG KONG'S FUTURE. CONGENOFF ASKED GORDON WU, MANAGING DIRECTOR, HOPEWELL HOLDINGS, LTD. (WITH LARGE INVESTMENTS IN THE SHENZHEN SPECIAL ECONOMIC ZONE AND IN GUANGDONG PROVINCE) WHAT HE MADE OF PRESS REPORTS OF A CHINESE PLAN TO FLY THE CHINESE FLAG AND HAVE A LOCAL CHINESE GOVERNOR IN HONG KONG. WU SAID HE HAD RECENTLY TALKED WITH GUANGDONG GOVERNOR LIU TIANFU, WHO TOLD HIM THE CHINESE WERE "SERIOUSLY CONSIDERING" THIS PLAN. UNDER THE "PLAN," WHICH HE WAS TOLD HAD CIRCULATED AMONG BEIJING'S TOP LEADERS, ONLY THE FLAG AND GOVERNOR WOULD CHANGE; EVERYTHING ELSE WOULD REMAIN THE SAME. THE CHANGES WOULD NOT TAKE PLACE UNTIL 1997. WU BELIEVES THE CHINESE WILL TAKE THIS POSITION WITH PRIME MINISTER THATCHER DURING HER SEPTEMBER VISIT. WU SAID HE CAUTIONED GUANGDONG OFFICIALS AGAINST SEEKING A LOCAL CHINESE GOVERNOR. IT WOULD HINDER BUSINESS CONFIDENCE AND COULD MAKE IT IMPOSSIBLE FOR HIM TO OBTAIN FUNDING IN HONG KONG FOR HIS VAST ROAD PROJECT LINKING HONG KONG, CANTON, AND MACAU.

3. (S/NF) A KNOWLEDGEABLE HONG KONG GOVERNMENT SOURCE TOLD CONGENOFFS AUGUST 25 THAT THIS FORMULATION IS ONE OPTION THE PRC IS SERIOUSLY CONSIDERING. HOWEVER HE REITERATED THE VIEW EXPRESSED EARLIER BY HKG SOURCE (REF A) THAT IT IS STILL UNDER DISCUSSION AND HAS NOT BECOME "THE" CHINESE PLAN. THE HKG HAD CLANDESTINELY LEARNED THAT DENG XIAOPING HAD AUTHORITATIVELY STATED

IN MID-JUNE THAT THE QUESTION OF HOW HONG KONG SHOULD BE GOVERNED COULD NOT BE ANSWERED IN A SHORT TIME. HE ALSO NOTED THAT WHEN FORMER PRIME MINISTER EDWARD HEATH VISITED BEIJING IN APRIL, THE CHINESE SENT A MESSAGE THROUGH HIM TO PRIME MINISTER THATCHER SOLICITING BRITISH VIEWS ON THE PRACTICAL ARRANGEMENTS NEEDED FOR A SOLUTION TO THE 1997 PROBLEM. ACCORDING TO OUR SOURCE, LONDON, DISTRACTED BY THE FALKLANDS CRISIS, HAS YET TO REPLY. ASKED WHETHER CHINESE THINKING MIGHT BE EVOLVING TOWARD DECISIONS DESPITE THE LACK OF DESIRED BRITISH INPUT, HE SAID, "THE INCHOATE DUST MAY HAVE SOLIDIFIED INTO MUD, BUT IT HASN'T YET HARDENED INTO CONCRETE."

4. (S/NF) STRESSING THE SENSITIVITY OF THE INFORMATION, OUR SOURCE ALSO MENTIONED THAT THE BRITISH EMBASSY IN BEIJING HAS JUST INFORMED THE PRC THAT LONDON WANTS TO SEE MRS. THATCHER'S SEPTEMBER VISIT PRODUCE AGREEMENT AND A PUBLIC STATEMENT THAT THE TWO SIDES WOULD BEGIN "PROMPT, DIRECT CONSULTATIONS" ON THE 1997 ISSUE. HE PERSONALLY BELIEVES THE RESULTING TALKS WILL BE LENGTHY BECAUSE THE TWO SIDES ARE FAR APART IN THEIR CURRENT PERCEPTIONS OF WHAT HONG KONG NEEDS TO REMAIN STABLE AND PROSPEROUS. HE SEES THE NEGOTIATIONS AS AN "EDUCATIONAL PROCESS" WHICH COULD LAST A YEAR OR MORE. HE BELIEVES, HOWEVER, THAT THE TWO SIDES EVENTUALLY WILL PRODUCE A SHANGHAI COMMUNIQUE-LIKE STATEMENT WITH ENOUGH "OVERLAP" IN THEIR RESPECTIVE POSITIONS TO ALLOW BRITAIN TO CONTINUE GOVERNING HONG KONG. SUCH A DOCUMENT WOULD INCLUDE TACIT OR OVERT CHINESE ACCEPTANCE OF BRITAIN'S MAKING CHANGES

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NLRR M299 #92267

BY KML NARA DATE 6/21/12

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R 261018Z AUG 82
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INFO AMEMBASSY BEIJING
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AIT TAIPEI

~~SECRET~~ SECTION 02 OF 02 HONG KONG 13893

NOFORN

IN ITS OWN LAWS TO ENABLE IT TO CONTINUE ADMINISTERING
THE NEW TERRITORIES BEYOND THE EXPIRATION OF THE
99-YEAR LEASE SIGNED IN 1898. ONCE THIS TIME FUSE IS
REMOVED, LONGER-RANGE AND MORE FUNDAMENTAL CHANGES
COULD BE CONSIDERED.

5. (S/NF) COMMENT: THOUGH THE HKG CONTINUES TO
DEPICT THE CHINESE AS FAR FROM ANY SOLID DECISIONS
ON HONG KONG, WE SENSE SOME BACKGROUND WORRY ON ITS
PART THAT IN THE ABSENCE OF TIMELY BRITISH INPUT,
CHINESE THINKING HAS DEVELOPED TOO FAR ALONG LINES
WHICH THE BRITS CONSIDER "UNREALISTIC" AND
INCOMPATIBLE WITH LONDON'S POSITION. UNOFFICIAL
CIRCULATION OF "THE PLAN" COULD OF COURSE BE A PRE-
BARGAINING PLOY BY BEIJING INTENDED TO MAKE THE
BRITISH FEEL THEY ARE DEALING WITH A TOUGH CUSTOMER.
IN ANY CASE, IT LOOKS AS THOUGH THE NEGOTIATIONS WILL
BE LENGTHY, WITH RUMORS CONTINUING TO CIRCULATE
AROUND HONG KONG. HOW WELL THE COMMUNITY'S MORALE
AND INVESTMENT CLIMATE BEAR UP UNDER THE STRAIN
REMAINS TO BE SEEN, ALTHOUGH THE MOOD HERE HAS
IMPROVED DISTINCTLY FROM THE LOW POINT OF SOME TWO
WEEKS AGO.
LEVIN

yes

~~SECRET~~

*Belmont's letter
Roger Porter
10/26/76* *OPD* 8
NATIONAL SECURITY COUNCIL

Mr. Edwin Harper — 456-6515

I am the new NSC staffer on China. RE your visit to Tokyo and Hong Kong - if you have the time I would like to give you a 5 minute briefing on Hong Kong (on the phone if you like) and some recommendations for people to talk to there which I think might ~~add~~ *add considerably to* your trip. *to the interest of*

As you know, Margaret Thatcher will be visiting Beijing in Sept. and her main subject for discussion will be the future of Hong Kong, inasmuch as British rights to the New Territories expire in June 1997. The Chinese hope to reach an agreement for the future of Hong Kong which will establish Chinese sovereignty but preserve British management — and →

9
thereby set an intriguing
example for Taiwan — to
help entice them into
negotiations on their own future
relationship with Beijing.

Sir Edward Youde, the ~~new~~ new
British Governor of Hong Kong,
~~and~~ previously the British
Ambassador in Beijing
for 4 years, was in Washington
in April and made a few calls on U.S.
officials.

II { I'd like to give you a brief
rundown on my ~~talks~~ talks with
Chinese + British Embassy officials
in H.K.

1

MEMORANDUM

NATIONAL SECURITY COUNCIL

August 31, 1982

MEMORANDUM FOR EDWIN HARPER

FROM: DAVID LAUX

SUBJECT: Your Trip to Tokyo and Hong Kong

I am the new NSC staffer on China. Re your visit to Tokyo and Hong Kong - if you have the time I would like to give you a 5-minute briefing on Hong Kong (on the phone if you like) and some recommendations for people to talk to there which I think might add to the interest of your trip.

As you know, Margaret Thatcher will be visiting Beijing in September and her main subject for discussion will be the future of Hong Kong, inasmuch as British rights to the New Territories expire in June 1997. The Chinese hope to reach an agreement for the future of Hong Kong which will establish Chinese sovereignty but preserve British management -- and ~~thoroughly~~ ^{thereby} set an intriguing example for Taiwan -- to help entice them into negotiations on their own future relationship with Beijing.

Sir Edward Youde, the new British Governor of Hong Kong, and previously the British Ambassador in Beijing for 4 years, was in Washington in April and made a few calls on U.S. officials.

I'd like to give you a brief run-down on my talks with Chinese and British Embassy officials on Hong Kong.

Sec. of the Navy, Lehman, was in HK recently, and talked with Youde & others about HK's future. U.S. Navy interest, of course, is in U.S. ship calls there. We have at least one ship in HK at all times. Youde didn't give much info to Lehman -- very little on their negotiating position, objectives or expectations for Chinese talks with Thatcher.

10
HK
Sp Asst. = Betty
Airs

~~CONFIDENTIAL~~

Department of State

INCOMING
TELEGRAM

PAGE 01 LONDON 19842 311631Z
ACTION EUR-00

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INFO OCT-00 COPY-01 ADS-00 INR-10 SS-10 CIAE-00 EB-00
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FM AMEMBASSY LONDON
TO SECSTATE WASHDC 3836
AMEMBASSY BEIJING
AMCONSUL HONG KONG

~~CONFIDENTIAL~~ LONDON 19842

E.O. 12356: DECL: OADR
TAGS: PEPR, HK, CH, UK
SUBJECT: HMG DEBATES FUTURE OF HONG KONG

REF: HONG KONG 13893

1. ~~CONFIDENTIAL~~ - ENTIRE TEXT

2. SUMMARY: THE BRITISH AREN'T SAYING MUCH ABOUT WHAT THATCHER WILL TELL THE CHINESE ON HONG KONG. THEY WORRY THAT LEAKS OF BRITISH PLANS COULD HARDEN THE CHINESE POSITION AND PERHAPS BUILD UNREALISTIC EXPECTATIONS IN HONG KONG. END SUMMARY

3. OUR FCO CONTACTS HAVE BEEN VERY CAUTIOUS IN DESCRIBING BRITISH THINKING ON HONG KONG'S FUTURE; THE PICTURE WHICH EMERGES IS THEREFORE SKETCHY AND SOMEWHAT CONFUSED. WE HAVE BEEN TOLD BY VARIOUS SOURCES (1) THAT THERE COULD BE NO QUESTION OF AN AGREEMENT EMERGING FROM THATCHER'S TALKS, (2) THAT AN AGREEMENT MIGHT BE FORTHCOMING, BUT THAT OPTIMISM NOW COULD RAISE HONG KONG EXPECTATIONS AND LEAD TO PANIC LATER IF NOTHING IS ACHIEVED, AND (3) THAT THERE IS A SERIOUS CHALLENGE WITHIN HMG TO THE IDEA THAT BRITAIN SHOULD SEEK TO CONTINUE IN HONG KONG AFTER 1997. THE ARGUMENT FOR WITHDRAWAL IS THAT BRITAIN RECEIVES NO GOVERNMENT REVENUES FROM HONG KONG; THAT ITS INVESTMENTS THERE ARE NOT SIGNIFICANT; AND THAT UNLIKE THE CASE OF THE FALKLAND ISLANDERS, THERE ARE NO RACIAL/ETHNIC TIES TO BIND BRITAIN TO HONG KONG'S POPULATION. BALANCING THIS ARE THATCHER'S OWN EXTREMELY STRONG FEELINGS TOWARD SOVEREIGNTY.

4. DESPITE CONFLICTING SIGNALS, IT APPEARS FROM OUR DISCUSSIONS THAT THE FCO IS CONSIDERING THREE OPTIONS:

- "MOST ATTRACTIVE" ACCORDING TO ONE FCO SOURCE:
 - U.K. WOULD RECOGNIZE NOMINAL CHINESE SOVEREIGNTY OVER ALL OF HONG KONG; CHINA WOULD GUARANTEE CONTINUATION OF THE STATUS QUO -- I.E., CONTINUED BRITISH ADMINISTRATION -- BEYOND 1997.
- U.K. WOULD RECOGNIZE CHINESE SOVEREIGNTY; CHINA WOULD LEASE HONG KONG TO U.K. FOR ANOTHER 50 YEARS. FCO BELIEVE CHINA COULD NOT ACCEPT THIS PLAN.
- AFTER 1997 HONG KONG WOULD GOVERN ITSELF UNDER NOMINAL CHINESE SOVEREIGNTY WITH A GUARANTEED PRC HANDS-OFF POLICY. FCO BELIEVE THIS COULD WORK, BUT ANNOUNCEMENT OF SUCH A PLAN NOW WOULD DESTROY INVESTOR CONFIDENCE IN THE NEAR TERM.

5. U.K. BOTTOM LINE: CONTINUED STABILITY AND PROSPERITY ARE THE GOAL. ONE FCO OFFICIAL FORESEES THAT THATCHER VISIT WILL SET THE STAGE FOR ONE TO THREE YEARS OF CONTINUED PRIVATE TALKS ON HONG KONG'S FUTURE, AS REPORTED REFTEL, DURING WHICH CHINESE WOULD BE "EDUCATED"

INTO ACCEPTING A SOLUTION THAT WOULD SATISFY INVESTORS. ANOTHER FCO OFFICIAL APPEARS TO BELIEVE THIS OUTCOME OF THE TALKS WOULD NOT BE SUFFICIENT TO MAINTAIN INVESTOR CONFIDENCE AND THAT MORE WILL BE REQUIRED. ALL INSIST THAT NO FINAL POLICY RECOMMENDATION HAS YET BEEN PRESENTED TO MRS. THATCHER. STREATOR

HONG KONG

from Kent Hamington

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NLRR M299 #92268

BY KML NARA DATE 6/21/12

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92269	CABLE	1	9/1/1982	B1
	RE HONG KONG			B3

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

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C : Copy

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FROM

SUBJECT

CLASSIFICATION

PAGES

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ROOM

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David Laux

673

302

REMARKS:

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NLRR M2591 #92270

BY RW NARA DATE 12/20/17

Office of East Asian Analysis
DIRECTORATE OF INTELLIGENCE

EO 13526 3.5(c)

1 September 82

NOTE FOR: David Laux, NSC

FROM :

Attached is the article which we prepared last week on Hong Kong including a map per our conversation this morning. We are doing some quick research to try and come up with a historical study--going back to the roots of the British presence in the 19th century--for you. I will also make sure that our longer memo, expanding on this article, gets into your hands right away.

Please give me a call if you have any other questions.

Regards,

92271 5
EO 13526 3.3(b)(1)>25Yrs

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NLRR m299/1 #92271

BY RW NARA DATE 12/20/17

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92272	PAPER RE HONG KONG	5	8/25/1982	B1 B3

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92273

21

TRANSMITTAL SLIP		DATE 1 SEPT 82
TO: David Laux, NSC		
ROOM NO.	BUILDING	
REMARKS:		
<p>Attached historical information on Hong Kong is from "Hong Kong 1982" except the maps.</p>		
<div style="border: 1px solid black; height: 20px; width: 150px; margin: 10px auto;"></div>		
FROM:		C/CH/FOR
ROOM NO.	BUILDING HQS	EXTENSION
FORM NO. 1 FEB 53 241		REPLACES FORM 36-8 WHICH MAY BE USED.

EO 13526 3.5(c)

DECLASSIFIED IN PART
 NLRR M299/1 #92273
 BY RW NARA DATE 12/20/17

92273

All but the maps are from "Hong Kong 1983"
published in that year by the Hong Kong Government.

21

History



THE dynamic drive of its people and their determination to survive a continual barrage of problems – mainly caused by external influences – has led to Hong Kong's reputation as being a leading international financial and trading centre.

It has had to face massive influxes of immigrants (both legal and illegal) and refugees which placed increased social pressures on its people. And as a financial and trading centre, it has had to adapt quickly to international monetary fluctuations and trade restrictions.

When Hong Kong Island was founded a British settlement 140 years ago, the population was about 3 650 people living in 20 villages and hamlets and 2 000 fishermen living onboard their boats in the harbour. Today, with a land area of 1 060 square kilometres (including the New Territories), the population is some 5.1 million.

Paradoxically, in its early days Hong Kong was not viewed as a desirable place to inhabit. Prior to its cession to Britain by China in January, 1841, the territory was regarded as an uninviting prospect for settlement. Mountainous and deficient in fertile land and water, it possessed only one natural asset, its fine and sheltered anchorage. Largely the reason for the British presence, Victoria Harbour was strategically located on the trade routes of the Far East and it was soon to become the hub of burgeoning entrepôt trade with China.

Its history has been one of material and social improvement; the expansion of its city and towns by cutting into rock and by reclaiming the land from the sea, the building of homes, schools, hospitals and other forms of public service to meet the demands of the expanding population.

Its people, by their industry and business acumen developed the infrastructure and services which allowed the small territory to thrive.

Archaeological Background

Archaeological studies in Hong Kong, which began in the 1920s, have uncovered Stone Age artefacts at numerous sites scattered along the winding shoreline, testifying to events stretching back over several thousand years. More recently, extensive excavations at Sham Wan on Lamma Island and Chung Hom Wan on Hong Kong Island have revealed two main neolithic cultural traditions lying in stratified sequence. At lower levels there is coarse, cord-marked pottery together with finer decorated pottery, and chipped and polished stone tools. Cultural comparisons supported by several scientific datings indicate that the beginning of this culture in the area may have been around 3 000 BC. The evidence from the pottery shapes and decorations suggests that they may have been the result of contacts with the northern Chinese Stone Age cultures of Longshan (Lung-shan).

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known example is the 'Kui' or 'double-f' pattern – a late geometric motif common in South China – began about 1 500 BC. The resemblance of pottery decorations to the northern bronze motifs of the Shang Dynasty (1766–1154 BC) and the Zhou (Chou) Dynasty (1122–249 BC) has led to the hypothesis that they inspired the geometric pottery tradition of the south. The excavations also reveal the appearance of bronze in this area around 600 BC and the advent of the Chinese of the Qin (Ts'in) (221–207 BC) and Han (206 BC–220 AD) dynasties, as evidenced by the discovery of coins from this period.

Although little is known of the early aboriginal inhabitants themselves, it is likely that they belonged to the ancient 'Yueh' tribes of South China, and were of Malaysian-Oceanic origin. The abundance of seashore sites suggests that they were boat people, sailing freely in the sheltered waters around Hong Kong's many islands, frequently landing and spending some time ashore. They lived by fishing, but may have practised some agriculture close to their landing sites. An interesting archaeological feature, almost certainly made by these people, is the rock carvings of geometric patterns found at Shek Pik, Lantau Island; on Kau Sai, Po Toi and Cheung Chau Islands; and at Big Wave Bay, on Hong Kong Island.

China's military conquests during the Qin and Han dynasties must have brought Chinese in increasing numbers to the south and exerted pressure on the local population. The Han tomb at Lei Cheng Uk, in Kowloon, stands as firm evidence of the presence of Han Chinese in this area.

Although the early garrisons may have cultivated the land for self-subsistence, the Chinese chronicles contain no records of land tenures until the Song (Sung) Dynasty (960–1279). A strong tradition exists locally that the first Chinese settlers to arrive were the family surnamed 'Tang' whose members subsequently established the peasant and land-owner traditions in this area.

Hong Kong's connection with the Song Dynasty is rich in legend and tradition. As the Mongol armies pursued the young Song emperor and his shattered forces into the south, the final defeat of the Song forces is reputed to have taken place in the Guangzhou (Canton) estuary. There is a belief that following the defeat the court fled to Lantau Island where many loyal Song courtiers lie buried. Some archaeological support exists since Song relics have been found from time to time on the island, while in 1962 a rich cache of thousands of Song coins was accidentally uncovered during the construction of the Shek Pik Reservoir. Another site – Nim Shue Wan, on the east coast of Lantau – although never excavated, has been known for many years to local archaeologists as a rich source of Song pottery.

The fate of the aboriginal boat people of this area is uncertain. It is believed that some may have fled to other islands, while others remained and were absorbed by other Chinese who had gradually assumed sway over the region.

A Place from Which to Trade

Hong Kong's development into a commercial centre began with its founding as a British colony in 1841. At the end of the 18th century the British dominated the foreign trade at Guangzhou but found conditions unsatisfactory, mainly because of the conflicting viewpoints of two quite dissimilar civilisations.

The Chinese regarded themselves as the only civilised people and foreigners trading at Guangzhou were subject to personal restrictions. Confined to the factory area, they were allowed to reside only for the trading season, during which they had to leave their families at Macau. They were forbidden to enter the city and to learn the Chinese language. Shipping dues were arbitrarily varied and generally much bickering resulted between the

from his instructions by successfully demanding both a treaty and an island, thus securing Hong Kong. In addition, five Chinese ports including Guangzhou were opened for trade. The commercial treaty was embodied in the supplementary Treaty of Humen (Bogue), October, 1843, by which the Chinese were allowed free access to Hong Kong Island for trading purposes.

Lease of New Territories

The Second Anglo-Chinese War (1856–8) arose out of disputes over the interpretation of the earlier treaties and over the boarding of a British lorcha, the *Arrow*, by Chinese in search of suspected pirates. The Treaty of Tianjin (Tientsin), 1858, which ended the war, gave the British the privilege of diplomatic representation in China. The first British envoy, Sir Frederick Bruce, who had been the first Colonial Secretary in Hong Kong, was fired on at Dagu (Taku) Bar on his way to Peking to present his credentials, and hostilities were renewed from 1859–60.

The troops serving on this second expedition camped on Kowloon Peninsula, as the territory's earliest photographs show. Finding it healthy, they wished to retain it as a military cantonment, with the result that Sir Harry Parkes, Consul at Guangzhou, secured from the Viceroy the perpetual lease of the peninsula as far as Boundary Street, including Stonecutters Island. The Convention of Peking, 1860, which ended the hostilities, provided for its outright cession.

Other European countries and Japan subsequently demanded concessions from China, particularly after Germany, France and Russia rescued China from the worst consequences of its defeat by Japan in 1895. In the ensuing tension, Britain felt that efficient defence of Hong Kong harbour demanded control of the land around it.

By the Convention of Peking on June 9, 1898, the New Territories – comprising the area north of Kowloon up to the Shum Chun River, and 235 islands – was leased for 99 years. The move was directed against France and Russia, not against China whose warships were allowed to use the wharf at Kowloon City. There, Chinese authority was permitted to continue 'except insofar as may be inconsistent with the military requirements for the defence of Hong Kong'. However, an Order in Council of December 27, 1898, revoked this clause and the British unilaterally took over Kowloon City. Some desultory opposition when the British took over the New Territories in March, 1899, soon disappeared. The area was declared part of the colony but was administered separately from the urban area.

Initial Growth

The new colony did not go well as first. It attracted unruly elements, while fever and typhoons threatened life and property. Crime was rife. The Chinese influx was unexpected because it was not anticipated they would choose to live under a foreign flag. The population rose from 32 983 (31 463 Chinese) in 1851, to 878 947 (859 425 Chinese) in 1931.

The Chinese asked only to be left alone and thrived under a liberal British colonial rule. Hong Kong became a centre of Chinese emigration and trade with Chinese communities abroad. Ocean-going shipping using the port increased from 2 889 ships in 1860, to 23 881 in 1939. The dominance of the China trade forced Hong Kong to conform to Chinese usage and to adopt the silver dollar as the currency unit in 1862. In 1935, when China went off silver, Hong Kong had to follow suit with an equivalent 'managed' dollar.

Hong Kong's administration followed the normal Crown colony pattern, with a governor nominated by Whitehall and nominated Executive and Legislative Councils with official majorities. The first unofficial members of the Legislative Council were nominated

in 1850, and the first Chinese in 1880; the first unofficial members of the Executive Council appeared in 1896, and the first Chinese in 1926. Two electoral bodies – the Hong Kong General Chamber of Commerce and the Unofficial Justices of the Peace – were each allowed, from 1885 onwards, to nominate a member to the Legislative Council.

The British residents pressed strongly for self-government on a number of occasions, but the home government consistently refused to allow the Chinese majority to be subject to the control of a small European minority.

A Sanitary Board was set up in 1883, became partly elected in 1887, and developed into an Urban Council in 1936. The intention, at first, was to govern the Chinese through Chinese magistrates seconded from the mainland. But this system of two parallel administrations was only half-heartedly applied and broke down mainly because of the weight of crime. It was completely abandoned in 1865 in favour of the principle of equality of all races before the law. In that year, the Governor's instructions were significantly amended to forbid him to assent to any ordinance 'whereby persons of African or Asiatic birth may be subjected to any disabilities or restrictions to which persons of European birth or descent are not also subjected'. Government policy was *laissez-faire*, treating Hong Kong as a market place where all were free to come and go and where government held the scales impartially.

Public and utility services developed – the Hong Kong and China Gas Company in 1861, the Peak Tram in 1885, the Hong Kong Electric Company in 1889, China Light and Power in 1903, the electric Tramways in 1904 and the government-owned Kowloon-Canton Railway, completed in 1910. There were successive reclamations dating from 1851 – notably one completed in 1904 in Central District, which produced Chater Road, Connaught Road and Des Voeux Road, and another in Wan Chai between 1921–9.

A system of public education began in 1847 with grants to the Chinese vernacular schools. Later, the voluntary schools – mainly run by missionaries – were included in a grant scheme in 1873. The College of Medicine for the Chinese, founded in 1887, developed into the University of Hong Kong in 1911 and offered arts, engineering and medical faculties.

After the Chinese Revolution of 1911, which overthrew the Manchu Dynasty, there was a long period of unrest in China and large numbers of refugees found shelter in the colony. The agitation continued after Chinese participation in World War I brought in its strong nationalist and anti-foreign sentiment – inspired both by disappointment over failure at the Versailles peace conference to regain the German concessions in Shandong (Shantung), and by the post-war radicalism of the Kuomintang. The Chinese sought to abolish all foreign treaty privileges in China. Foreign goods were boycotted and the unrest spread to Hong Kong, where a seamen's strike in 1922 was followed by a serious general strike in 1925–6 under pressure from Guangzhou. This petered out, though not before causing considerable disruption in Hong Kong. Britain, with the largest foreign stake in China, was at that time the main target of the anti-foreign sentiment. But in this odious role she was soon to be replaced by Japan.

The 1930s and World War II

During World War I, Japan presented her '21 demands' to China. Then, in 1931, Japan occupied Manchuria and the attempt to detach China's northern provinces led to open war in 1937. Guangzhou fell to the Japanese in 1938, resulting in a mass flight of refugees to Hong Kong. It was estimated that some 100 000 refugees entered in 1937, 500 000 in 1938 and 150 000 in 1939 – bringing the population at the outbreak of World War II to an estimated 1.6 million. It was thought that at the height of the influx about half a million people were sleeping in the streets.

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Japan entered World War II with an attack on Pearl Harbour on December 7, 1941, and an attack at approximately the same time on Hong Kong (December 8, 1941, local time). The Japanese attacked from the mainland and, subsequently, the British were forced to retire from the New Territories and Kowloon to Hong Kong Island. After a week of stubborn resistance on the island, the defenders – including the local Volunteer Corps – were overwhelmed and Hong Kong surrendered on Christmas Day. The Japanese occupation lasted for three years and seven months.

Trade virtually disappeared, currency lost its value, the supply of food was disrupted and government services and public utilities were seriously impaired. Many residents moved to Macau – the Portuguese province hospitably opening its doors to them. Towards the latter part of the occupation, the Japanese sought to ease the food problems by organising mass deportations. In the face of increasing oppression, the bulk of the community remained loyal to the allied cause. Chinese guerillas operated in the New Territories and escaping allied personnel were assisted by the rural population.

Soon after news of the Japanese surrender was received on August 14, 1945, a provisional government was set up by the Colonial Secretary, Mr (later Sir) Frank Gimson. Rear Admiral Sir Cecil Harcourt arrived, on August 30, with units of the British Pacific Fleet to establish a temporary military government. Civil government was formally restored on May 1, 1946, when Sir Mark Young resumed his interrupted governorship.

The Post-War Years

Following the Japanese surrender, Chinese civilians – many of whom had moved into China during the war – returned at the rate of almost 100 000 a month. The population, which by August, 1945, had been reduced to about 600 000, rose by the end of 1947 to an estimated 1.8 million. Then, in the period 1948–9, as the forces of the Chinese Nationalist Government began to face defeat in civil war at the hands of the communists, Hong Kong received an influx of people unparalleled in its history.

About three quarters of a million refugees – mainly from Guangdong province, Shanghai and other commercial centres – entered the territory during 1949 and the spring of 1950. By the end of 1950 the population was estimated to be 2.3 million.

After a period of economic stagnation caused by the United Nations' embargo on trade with China, Hong Kong began to industrialise. No longer could the territory rely solely on its port to provide prosperity for its greatly increased population. From the start, the industrial revolution was based on cotton textiles, gradually adding woollens and, in the late 1960s, man-made fibres and made-up garments. The fact that textiles and clothing have consistently taken up 43 to 55 per cent of Hong Kong's total domestic exports each year since 1959 clearly shows the economy's dependence on these items. While textiles remain the mainstay of Hong Kong's economy, major contributions are made by plastic goods, watches and clocks, electronic products and other light industries.

In development of these post-war years, Hong Kong continued to build up its role as an entrepôt with its neighbours and trade with China has been no exception. Coupled with tourism, this has led to vast improvements in communications and during 1981 an average of 14 000 people a day entered China from or through Hong Kong, its natural gateway. The territory's flag carrier Cathay Pacific, has two flights a week to Shanghai and China's CAAC has three daily flights to Guangzhou, six a week to Shanghai, five a week to Peking, thrice weekly to Hangzhou and twice weekly to Kunming. Direct bus services – a British and Chinese joint venture – were introduced in June with three departures daily between Hong Kong, Shantou, Huiyang and Xienning. This was later upgraded to six departures

daily to 10 destinations in Guangdong. There are also daily hoverferry services and through train services to Guangzhou. A new immigration and customs post has been opened at Man Kam To on the border and work has started on improvements to the railway station at Lo Wu.

The development of Hong Kong's economic base has enabled the government to increase spending on social services over the years – from \$1,188 million in 1971–2 to an estimated \$11,906 million in 1981–2. Expenditure on education facilities and improvements for its young and vibrant population has always been utmost in budget preparations and there are now places for every secondary school student up to the age of 15 years. Accommodation has always been a problem with a rapidly growing population and expenditure in this field has increased accordingly. More than two million people now live in some form of public housing managed by the Housing Authority. Public housing flats are being constructed at an average rate of one every 7.5 minutes each 12-hour working day, every day of the year. And it is planned to continue providing about 35 000 flats a year under present conditions. To keep pace with this development and a policy of decentralisation, the government is committed to improving the infrastructure and an estimated \$3,650 million, about 13 per cent of expenditure, is being spent on transport, roads, civil engineering and land during 1981–2.

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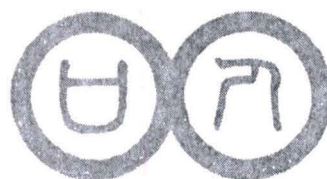
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Population

THE total estimated population at the end of 1981 was 5 207 000, comprising 2 716 800 males and 2 490 200 females. The estimate is based on the Population Census taken in March 1981, adjusted for subsequent births, deaths and migration. This represents an increase of 27 per cent on the 1971 population estimate of 4 090 500.

The average annual rate of increase over the 10-year period was 2.4 per cent, with the rate fluctuating from year to year because of changes in migration flow. During the years 1978-80 in particular, there was large-scale immigration from China - both legal and illegal - and a massive influx of boat refugees from Vietnam. The average annual growth rate increased from 1.8 per cent over the period 1971-7 to 3.9 per cent over the period 1978-80. The annual growth rate for 1981 was 1.7 per cent due to a reduction in the inflow of immigrants as a result of a revision of immigration policy at the end of 1980.

At the same time, the rate of natural increase dropped steadily over the period from 15 to 12 per thousand. This was the result of the birth rate declining from 20 per thousand in 1971 to 17 per thousand in 1981, and the death rate remaining stable at about five per thousand.

In the early part of the 10-year period, the decline in the birth rate resulted from there being fewer women in the prime child-bearing ages of 25 to 34, and from women generally having fewer children. This latter reason was the main factor in the decline during the remainder of the 10-year period. In recent years, later marriages, and improvements in education and job opportunities, have also contributed to this trend.

The 1981 Census indicated that the increase in population of the New Territories, particularly the new towns, over the 10-year period was especially substantial. The proportion of the population in the New Territories rose from 17.2 per cent in 1971 to 26.1 per cent in 1981 and in absolute terms from 675 582 to 1 303 005. On the other hand, the marine population continued to decrease during this period. Its number in 1981 was less than two-thirds of that in 1971. The populations of Hong Kong Island (1 183 621), Kowloon (799 123) and New Kowloon (1 651 064) rose at slower rates than the overall average during the period.

Hong Kong, with a land area of only 1 061 square kilometres, is one of the most densely populated places in the world. The 1981 Census recorded an overall density per square kilometre of 4 760. But this figure conceals wide variations in density between individual areas. The density for the metropolitan areas of Hong Kong Island, Kowloon, New Kowloon and Tsuen Wan was 28 479 people per square kilometre; but for the New Territories it was 792 per square kilometre. The most densely populated district was Sham Shui Po, with 165 445 people per square kilometre. This will, of course, change with the development of new towns in the New Territories. Seven new towns are being developed to alleviate the high density in the urban areas and to help provide an increasing population with better housing and an improved living environment.

Many couples wish to be married over the weekends (especially when the auspicious days of the lunar calendar fall on Saturday or Sunday). To meet this demand, arrangements have been made for the principal marriage registries to operate on Saturdays and Sundays. All registries also make provision for group marriages. As a result of the additional facilities and extended working hours, the average waiting time for registration of a marriage at the popular registries has been reduced from about three months to less than one month.

The Marriage Reform Ordinance provides that all marriages entered into in Hong Kong on or after October 7, 1971 shall imply the voluntary union, for life, of one man and one woman to the exclusion of all others, and may be contracted only in accordance with the Marriage Ordinance. It declares valid certain customary marriages and other marriages known as modern marriages provided, in each case, they were entered into before October 7, 1971. The ordinance also makes provision for the post-registration of these marriages, and for their dissolution. During the year, 53 customary and 17 modern marriages were post-registered.

Births and Deaths

The registration of births and deaths is compulsory, and facilities for registration are provided throughout Hong Kong. The General Register Office in Central District keeps all records of births and deaths, and there are sub-registries in all main urban and rural districts. In the outlying areas and islands, births are registered at various rural committee offices by visiting district registrars, and deaths are registered at local police stations.

The statutory period during which a birth should be registered is 42 days from the date of birth. There is no registration fee. However, for registration between the end of the 42-day period and the expiration of one year from the date of birth, a fee of \$5 is charged. During the year, 87 104 live births and 24 978 deaths were registered, compared with 85 406 and 25 987 respectively, in 1980. The figures, when adjusted for under registration, gave a natural increase in population for 1981 of approximately 61 954.

A birth which has not been registered within one year may be post-registered with the consent of the Registrar of Births and Deaths and on payment of a \$30 fee. During the year, 1 171 births were post-registered.

The Immigration Department is responsible for the registration of births, deaths and marriages in Hong Kong.

Appendix 3

(Chapter 2: Industry and Trade)

Hong Kong's External Trade by Major Trading Partners

Imports

Source	1979		1980		1981		1980-81 Change in per cent
	\$ Million	Per cent	\$ Million	Per cent	\$ Million	Per cent	
Japan	19,320	22.5	25,644	23.0	32,130	23.2	+25.3
China	15,130	17.6	21,948	19.7	29,510	21.3	+34.5
United States	10,365	12.1	13,210	11.8	14,442	10.4	+9.3
Taiwan	6,035	7.0	7,961	7.1	10,762	7.8	+35.2
Singapore	4,821	5.6	7,384	6.6	10,627	7.7	+43.9
Britain	4,350	5.1	5,456	4.9	6,283	4.5	+15.1
Republic of Korea (South Korea)	2,529	2.9	3,869	3.5	5,495	4.0	+42.0
Germany, Federal Republic	2,775	3.2	2,883	2.6	3,383	2.4	+17.3
Switzerland and Liechtenstein	2,592	3.0	2,897	2.6	2,848	2.1	-1.7
Australia	1,579	1.8	1,698	1.5	2,005	1.4	+18.1
Others	16,340	19.0	18,701	16.7	20,891	15.1	+11.7
Merchandise total	85,837	100.0	111,651	100.0	138,375	100.0	+23.9

Domestic Exports

Destination	1979 \$ Million	1979 Per cent	1980 \$ Million	1980 Per cent	1981 \$ Million	1981 Per cent	1980-81 Change in per cent
United States	18,797	33.6	22,591	33.1	29,200	36.3	+29.3
Britain	5,974	10.7	6,791	10.0	7,710	9.6	+13.5
Germany, Federal Republic	6,344	11.3	7,384	10.8	7,048	8.8	-4.5
Japan	2,656	4.8	2,329	3.4	2,940	3.7	+26.2
China	603	1.1	1,605	2.4	2,924	3.6	+82.2
Australia	1,789	3.2	1,941	2.8	2,710	3.4	+39.6
Canada	1,637	2.9	1,782	2.6	2,355	2.9	+32.2
Singapore	1,413	2.5	1,791	2.6	1,732	2.2	-3.3
Netherlands	1,406	2.5	1,575	2.3	1,598	2.0	+1.4
France	1,004	1.8	1,407	2.1	1,483	1.8	+5.4
Others	14,289	25.6	18,975	27.8	20,724	25.8	+9.2
Merchandise total	55,912	100.0	68,171	100.0	80,423	100.0	+18.0

Re-exports

Destination	1979 \$ Million	1979 Per cent	1980 \$ Million	1980 Per cent	1981 \$ Million	1981 Per cent	1980-81 Change in per cent
China	1,315	6.6	4,642	15.4	8,044	19.3	+73.3
United States	1,995	10.0	3,085	10.3	4,785	11.5	+55.1
Indonesia	1,684	8.4	2,761	9.2	4,272	10.2	+54.7
Singapore	1,804	9.0	2,510	8.3	3,243	7.8	+29.2
Japan	2,477	12.4	2,201	7.3	2,792	6.7	+26.8
Taiwan	1,730	8.6	2,229	7.4	2,420	5.8	+8.6
Macau	605	3.0	923	3.1	1,407	3.4	+52.4
Republic of Korea (South Korea)	818	4.1	899	3.0	1,401	3.4	+55.8
Philippines	777	3.9	904	3.0	1,294	3.1	+43.2
Nigeria	377	1.9	843	2.8	1,073	2.6	+27.3
Others	6,441	32.2	9,075	30.2	11,009	26.3	+21.3
Merchandise total	20,022	100.0	30,072	100.0	41,739	100.0	+38.8

Appendix 3

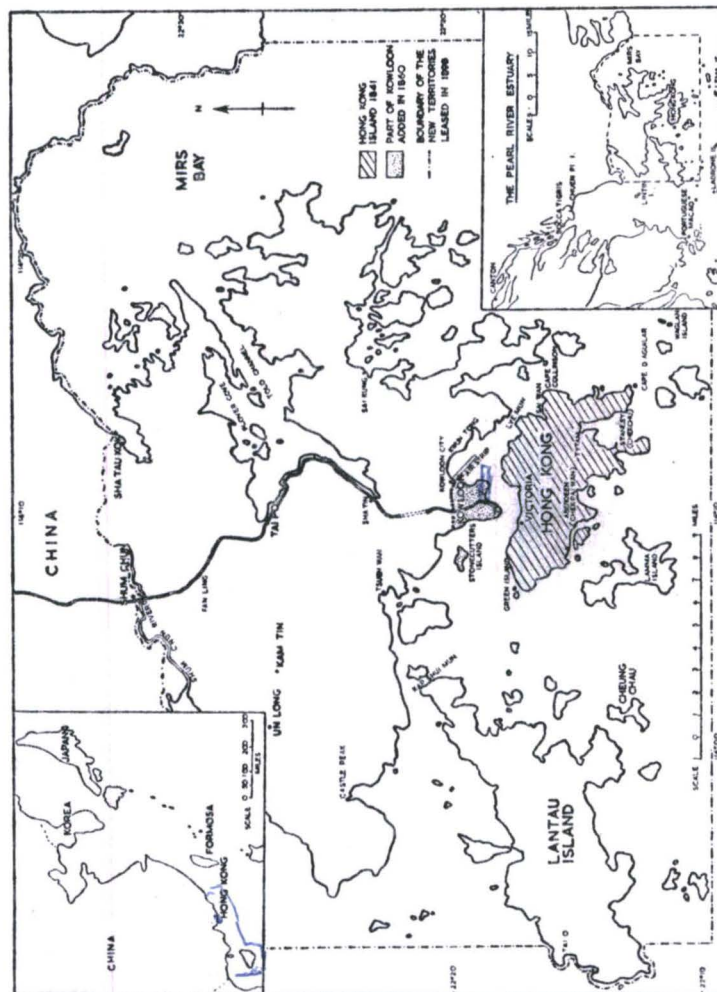
(Chapter 2: Industry and Trade)

Hong Kong's External Trade by Major Trading Partners

Imports

Section/division	1980-81 Change in per cent
Food and live animals	
Live animals chiefly for slaughter	
Meat and meat preparations	
Fish crustacea and molluscs	
Cereals and cereal preparations	
Vegetables and fruit	
Others	
Sub-total	
Beverages and tobacco	
Beverages	
Tobacco and tobacco preparations	
Sub-total	
Crude materials, inedible	
Cork and wood	
Textile fibres (other than cotton)	
Crude animal and vegetable oils	
Others	
Sub-total	
Mineral fuels, lubricants	
Petroleum, petroleum products	
Others	
Sub-total	
Animal and vegetable products	
Fixed vegetable oils and fats	
Others	
Sub-total	
Chemicals and related products	
Organic chemicals	
Medicinal and pharmaceutical preparations	
Artificial resins and plastics	
Others	
Sub-total	
Manufactured goods	
Textile yarn, fabrics	
Non-metallic mineral products	
Iron and steel	
Manufactures of non-metallic mineral products	
Others	
Sub-total	
Machinery and transport equipment	
Telecommunication equipment	
Electrical machinery	
Road vehicles (including motor vehicles)	
Others	
Sub-total	
Miscellaneous manufactures	
Articles of apparel and accessories	
Footwear	
Photographic apparatus	
Miscellaneous manufactures	
Others	
Sub-total	
Commodities and transport equipment	
Total merchandise	
Gold and specie	
Grand total	

Note: n e s = not elsewhere specified



Redrawn by Mr Wong Ming

Map of Hong Kong and The New Territories reproduced by permission of the Oxford University Press, London. Revised by Prof. S. G. Davis, 1964.

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MEMORANDUM

NATIONAL SECURITY COUNCIL

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September 9, 1982

MEMORANDUM FOR EDWIN HARPER

FROM:

DAVID LAUX *DL*

SUBJECT:

Classified Briefing Material for Hong Kong Trip

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

- A. A recent CIA article (25 August) which is the best overall summary of the likely future prospects for Hong Kong.
- B. Three cables, the first summarizing Secretary of the Navy Lehman's talks with the Governor, Sir Edward Youde, on August 14. Youde was not very forthcoming. The other two outline probable British and Chinese positions for negotiations on HK's future.

Hope this is helpful.

Attachments

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DECLASSIFY ON: OADR

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BY *RLW* NARA DATE 12/20/17



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TELEGRAM

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INFO AMEMBASSY BEIJING
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~~CONFIDENTIAL~~ SECTION 01 OF 02 HONG KONG 13165

EXDIS

MANILA PLEASE PASS TO SECRETARY LEHMAN

E.O. 12356: DECL: 8/16/97
TAGS: PEPR, PGOV, MILI, HK, CH, US
SUBJ: SECRETARY LEHMAN DISCUSSION WITH HONG KONG GOVERNOR

1. SUMMARY: IN A MEETING WITH SECRETARY LEHMAN, GOVERNOR YAUDE POURED COLD WATER ON THE CURRENT INTENSE SPECULATION HERE ON HONG KONG'S STATUS. HE WAS NOT AWARE OF ANY PRC DECISIONS ON THE ISSUE. BEIJING'S SHARED INTEREST IN HONG KONG'S CONTINUED PROSPERITY ENHANCED CHANCES OF WORKING OUT A MUTUALLY SATISFACTORY SOLUTION. IT WAS MOST UNLIKELY THAT ANYTHING DRAMATIC WOULD COME OUT OF THE THATCHER VISIT THIS SEPTEMBER, BUT THE PM WOULD BE UNDER THE GUN TO BRING BACK SOMETHING TO CALM JITTERY HONG-KONG NERVES.

2. THE GOVERNOR BELIEVED THAT BEIJING WOULD WELCOME A STRENGTHENED U.S. NAVAL PRESENCE IN THE REGION AS A COUNTER TO THE SOVIET EFFORT TO COMPLETE CHINA'S ENCIRCLEMENT. HE SAW DENG AS A STRONG PROPONENT OF A CHINESE STRATEGIC RELATIONSHIP WITH THE U.S., ALTHOUGH WORRISOMELY IT IS NOT KNOWN WHETHER ANY OF DENG'S ASSOCIATES SHARE HIS STRATEGIC VISION.
END SUMMARY.

3. SECRETARY OF NAVY JOHN LEHMAN'S AUGUST 14 CALL ON GOVERNOR YAUDE FEATURED DISCUSSIONS OF HONG KONG'S STATUS, U.S.-PRC RELATIONS AND THE US NAVY REBUILDING PROGRAM. NOTWITHSTANDING HONG KONG'S PREVAILING JITTERS INDUCED BY A COMBINATION OF CONCERN OVER THE ECONOMY AND THE 1997 LEASE ISSUE, THE GOVERNOR WAS IN A RELAXED, UPBEAT MOOD. HE NOTED THAT FOR ALL THE TALK ABOUT A FALTERING ECONOMY, HONG KONG STILL EXPECTED TO REGISTER 5 PERCENT REAL GROWTH IN GNP THIS YEAR -- A REMARKABLE PERFORMANCE WHEN MEASURED AGAINST THE REST OF THE RECESSION-PLAGUED WORLD. HE POURED COLD WATER ON THE CURRENT INTENSE SPECULATION ON HONG KONG'S STATUS. IT WAS ALL UNFOUNDED. TO THE BEST OF HIS AND LONDON'S KNOWLEDGE, THE PRC HAD NOT FORMULATED ITS POSITION ON THE ISSUE. MOREOVER, BEIJING'S INTEREST IN HONG KONG'S CONTINUED PROSPERITY AND ITS REPEATED ASSURANCES ABOUT PRESERVING HONG KONG'S ROLE AS A FREE PORT AND TRADE AND FINANCIAL CENTER PROVIDED STRONG GROUNDS FOR WORKING OUT A MUTUALLY SATISFACTORY SOLUTION. THIS WOULD TAKE SOME TIME. BEIJING HAD OTHER, MORE PRESSING DOMESTIC AND FOREIGN POLICY PRIORITIES. IT WAS UNLIKELY THAT PM THATCHER'S SEPTEMBER VISIT TO THE PRC WOULD PRODUCE ANY MAJOR MOVEMENT ON HONG KONG. HOWEVER, GIVEN THE CURRENT MOOD HERE AND THE INTENSE FOCUS ON THE VISIT, THE PM WOULD HAVE TO BRING BACK SOMETHING CALMING FOR HONG KONG. HE WAS REASONABLY OPTIMISTIC BEIJING WOULD BE

RESPONSIVE TO THIS NEED.

4. IN RESPONSE TO QUESTIONING, THE GOVERNOR THOUGHT THAT THE TAIWAN ISSUE WOULD IMPORTANTLY INFLUENCE THE PRC'S APPROACH TO HONG KONG. IT WOULD CUT TWO WAYS. ON THE PLUS SIDE, THE PRC WOULD BE INTENT ON SHOWING TAIWAN THAT A SETTLEMENT COULD BE REACHED WHICH WOULD PRESERVE THE EXISTING LIFESTYLE. ON THE MINUS SIDE, THE PRC MIGHT BE STICKY ON SOVEREIGNTY AND RELATED SYMBOLS FOR FEAR OF SETTING AN UNFAVORABLE PRECEDENT FOR TAIWAN.

5. SECRETARY LEHMAN OUTLINED OUR NAVAL REBUILDING PROGRAM. WHEN COMPLETED, IT WOULD RESULT IN STRONGER US NAVAL PRESENCE IN THE REGION. HE ASKED ABOUT THE PRC REACTION TO SUCH A DEVELOPMENT. THE GOVERNOR THOUGHT BEIJING WOULD WELCOME IT. THE CHINESE WERE VERY CONCERNED ABOUT THE GROWTH OF SOVIET NAVAL POWER IN THE PACIFIC, SEEING IT AS PART OF THE SOVIET STRATEGY TO ENCIRCLE CHINA. THEY DO NOT WANT THE PACIFIC TO BECOME A SOVIET LAKE. WHILE THEY MIGHT NOT SAY ANYTHING PUBLICLY, THE CHINESE LEADERSHIP PRIVATELY WOULD BE VERY PLEASED WITH A U.S. NAVAL BUILD-UP IN THE REGION.

6. THE SECRETARY ASKED FOR THE GOVERNOR'S VIEWS AS TO WHY THE CHINESE WERE NOW TAKING POT SHOTS AT U.S. FOREIGN POLICY. THE GOVERNOR SAW THIS STEMMING FROM A AMALGAM OF CHINESE DOMESTIC AND FOREIGN POLICY CONSIDERATIONS. SOME CHINESE NERVES HAD BEEN RUBBED ON THE TAIWAN ISSUE AND THE LEADERSHIP HAD TO SAFEGUARD ITS FLANKS AGAINST DOMESTIC CRITICS BY

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BY KML NARA DATE 6/24/12

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~~CONFIDENTIAL~~ SECTION 02 OF 02 HONG KONG 13165

EXDIS

MANILA PLEASE PASS TO SECRETARY LEHMAN

APPEARING TOUGH TOWARD THE U.S. CHINESE SUPPORT OF THE WEST EUROPEAN POSITION ON THE GAS PIPELINE WAS IN KEEPING WITH BEIJING'S LONGSTANDING ADVICE TO WEST EUROPEAN NATIONS TO SHOW MORE INDEPENDENCE FROM THE UNITED STATES, BUT WITHIN THE GENERAL FRAMEWORK OF U.S.-WEST EUROPEAN STRATEGIC COOPERATION. HE HAD BEEN ON THE RECEIVING END OF SUCH ADVICE MORE TIMES THAN HE CARED TO REMEMBER WHILE SERVING AS UK AMBASSADOR TO THE PRC. HE HOPED THAT THE U.S. WOULD NOT LET CHINESE CRITICISM GET UNDER ITS SKIN. HE WAS CONVINCED THAT DENG XIAOPING STRONGLY VALUED CHINA'S STRATEGIC RELATIONSHIP WITH THE U.S. DENG SHARED ZHOU AND MAO'S ABILITY TO THINK STRATEGICALLY. WORRISOMELY, IT IS NOT KNOWN WHETHER ANY OF DENG'S ASSOCIATES POSSESS THIS BROAD VISION AND UNDOUBTEDLY THERE WERE SOME WITHIN THE LEADERSHIP WHOSE ATTITUDES WERE SHAPED BY NARROW, NATIONALISTIC CONSIDERATIONS. THEY WERE PROBABLY CAUSING PROBLEMS FOR DENG, BUT IT WAS MOST DIFFICULT TO ESTIMATE THEIR STRENGTH OR EVEN TO BE SURE OF THEIR IDENTITY.

7. COMMENT: ALTHOUGH THE GOVERNOR HAS OBVIOUS REASONS FOR PUTTING THE BEST POSSIBLE FACE ON THE CURRENT SITUATION, HIS PRESENTATION CAME ACROSS AS FRANK AND UNCALCULATED.

8. THE GOVERNOR HAS MAINTAINED A LOW, ALMOST INVISIBLE PROFILE OVER THIS PAST UNSETTLED WEEK. THIS HAS PROVOKED SOME MURMURED CRITICISM ABOUT HIS FAILURE TO DEMONSTRATE STRONG LEADERSHIP TALENTS AT A TIME OF WIDESPREAD CONCERN. IN MOOD, APPEARANCE AND FROM WHAT HE SAID, THE GOVERNOR BETRAYED NOT THE SLIGHTEST SIGN OF WORRY OVER ANY IMAGE PROBLEM THAT MAY BE BREWING FOR HIM.

9. SECRETARY LEHMAN HAS NOT SEEN THIS MESSAGE.

LEVIN

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E.O. 12356: DECL: OADR
TAGS: PEPR, HK, CH, UK
SUBJECT: HMG DEBATES FUTURE OF HONG KONG
REF: HONG KONG 13893

1. CONFIDENTIAL - ENTIRE TEXT

2. SUMMARY: THE BRITISH AREN'T SAYING MUCH ABOUT
WHAT THATCHER WILL TELL THE CHINESE ON HONG KONG.
THEY WORRY THAT LEAKS OF BRITISH PLANS COULD HARDEN THE
CHINESE POSITION AND PERHAPS BUILD UNREALISTIC
EXPECTATIONS IN HONG KONG. END SUMMARY

3. OUR FCO CONTACTS HAVE BEEN VERY CAUTIOUS IN DESCRIBING
BRITISH THINKING ON HONG KONG'S FUTURE; THE PICTURE WHICH
EMERGES IS THEREFORE SKETCHY AND SOMEWHAT CONFUSED.
WE HAVE BEEN TOLD BY VARIOUS SOURCES (1) THAT THERE
COULD BE NO QUESTION OF AN AGREEMENT EMERGING FROM
THATCHER'S TALKS, (2) THAT AN AGREEMENT MIGHT BE FORTH-
COMING, BUT THAT OPTIMISM NOW COULD RAISE HONG KONG
EXPECTATIONS AND LEAD TO PANIC LATER IF NOTHING IS
ACHIEVED, AND (3) THAT THERE IS A SERIOUS CHALLENGE
WITHIN HMG TO THE IDEA THAT BRITAIN SHOULD SEEK TO
CONTINUE IN HONG KONG AFTER 1997. THE ARGUMENT FOR
WITHDRAWAL IS THAT BRITAIN RECEIVES NO GOVERNMENT
REVENUES FROM HONG KONG; THAT ITS INVESTMENTS THERE ARE
NOT SIGNIFICANT; AND THAT UNLIKE THE CASE OF THE FALKLAND
ISLANDERS, THERE ARE NO RACIAL/ETHNIC TIES TO BIND BRITAIN
TO HONG KONG'S POPULATION. BALANCING THIS ARE THATCHER'S
OWN EXTREMELY STRONG FEELINGS TOWARD SOVEREIGNTY.

4. DESPITE CONFLICTING SIGNALS, IT APPEARS FROM OUR
DISCUSSIONS THAT THE FCO IS CONSIDERING THREE OPTIONS:

- "MOST ATTRACTIVE" ACCORDING TO ONE FCO SOURCE:
- U.K. WOULD RECOGNIZE NOMINAL CHINESE SOVEREIGNTY OVER
ALL OF HONG KONG; CHINA WOULD GUARANTEE CONTINUATION
OF THE STATUS QUO -- I.E., CONTINUED BRITISH
ADMINISTRATION -- BEYOND 1997.
- U.K. WOULD RECOGNIZE CHINESE SOVEREIGNTY; CHINA
WOULD LEASE HONG KONG TO U.K. FOR ANOTHER 50 YEARS.
FCO BELIEVE CHINA COULD NOT ACCEPT THIS PLAN.
- AFTER 1997 HONG KONG WOULD GOVERN ITSELF UNDER
NOMINAL CHINESE SOVEREIGNTY WITH A GUARANTEED PRC
HANDS-OFF POLICY. FCO BELIEVE THIS COULD WORK, BUT

- ANNOUNCEMENT OF SUCH A PLAN NOW WOULD DESTROY
INVESTOR CONFIDENCE IN THE NEAR TERM.

5. U.K. BOTTOM LINE: CONTINUED STABILITY AND PROSPERITY
ARE THE GOAL. ONE FCO OFFICIAL FORESEES THAT THATCHER
VISIT WILL SET THE STAGE FOR ONE TO THREE YEARS OF
CONTINUED PRIVATE TALKS ON HONG KONG'S FUTURE, AS
REPORTED REFTEL, DURING WHICH CHINESE WOULD BE "EDUCATED"
INTO ACCEPTING A SOLUTION THAT WOULD SATISFY INVESTORS.
ANOTHER FCO OFFICIAL APPEARS TO BELIEVE THIS OUTCOME OF
THE TALKS WOULD NOT BE SUFFICIENT TO MAINTAIN INVESTOR
CONFIDENCE AND THAT MORE WILL BE REQUIRED. ALL INSIST
THAT NO FINAL POLICY RECOMMENDATION HAS YET BEEN PRESENTED
TO MRS. THATCHER. STREATOR
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BY KML NARA DATE 6/21/12

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1. THE FUTURE OF HONG KONG WAS THE MAJOR TOPIC OF DISCUSSION WHEN CHINESE COMMUNIST PARTY (CCP) VICE CHAIRMAN ((DENG)) XIAOPING AND OTHER CHINESE LEADERS MET WITH LEADING HONG KONG BUSINESSMEN IN BEIJING ON 15 JUNE 1982.

CHINA INTENDS TO ASSERT ITS SOVEREIGNTY OVER HONG KONG BUT WILL OTHERWISE TRY TO MAINTAIN THE STATUS QUO. TO ACCOMPLISH THESE AIMS CHINA HAS THE FOLLOWING PLANS:

A. TO MAKE HONG KONG A SPECIAL AUTONOMOUS DISTRICT WHICH WILL GOVERN ITSELF BUT FLY THE CHINESE NATIONAL FLAG. THE GOVERNOR OF HONG KONG WOULD NOT BE APPOINTED FROM BEIJING BUT WOULD BE "ELECTED" LOCALLY BY THE PEOPLE OF HONG KONG. THEORETICALLY, THE GOVERNOR COULD BE BRITISH, IF THE PEOPLE OF HONG KONG CHOSE HIM TO BE.

B. TO PERMIT HONG KONG TO CONTINUE ITS PRESENT ECONOMIC, MONETARY AND LEGAL/JUDICIAL SYSTEMS. THE HONG KONG DOLLAR AND HONG KONG FOREIGN EXCHANGE RESERVES WOULD BE TOTALLY INDEPENDENT OF CHINESE CONTROL. THE LEGAL/JUDICIAL SYSTEM WOULD ALSO REMAIN INDEPENDENT, ALTHOUGH SOME OF THE SYSTEM'S TERMINOLOGY WOULD HAVE TO BE CHANGED TO MAKE THE SYSTEM INTRINSIC TO HONG KONG AND NOT TIED TO BRITISH HERITAGE. (SOURCE COMMENT: IT APPEARS THAT THE HONG KONG POLICE WOULD REMAIN AN INDEPENDENT BODY BUT BRITISH MILITARY ELEMENTS WOULD EITHER HAVE TO LEAVE HONG KONG OR BE INCORPORATED INTO THE LOCAL GOVERNING STRUCTURE.)

2. WHEN ASKED WHETHER CHINA VIEWS 1997 AS THE TARGET DATE FOR IMPLEMENTING THESE CHANGES, THE CHINESE LEADERS DID NOT RESPOND DIRECTLY. THEY INDICATED THAT THE CHANGES COULD TAKE PLACE EITHER BEFORE OR AFTER 1997. THEY ALSO STRESSED THAT

THE TRANSITION FROM BRITISH TO CHINESE POSSESSION WOULD BE ACCOMPLISHED VERY SLOWLY AND CAREFULLY. CHINA DOES NOT WANT TO UNDERMINE INVESTOR CONFIDENCE OR CREATE ANXIETY AMONG HONG KONG RESIDENTS. IN THIS REGARD, THE CHINESE LEADERS CAUTIONED THE HONG KONG BUSINESSMEN NOT TO DIVULGE THE CONTENT OF THE PRESENT DISCUSSIONS; THESE TALKS WERE "TOP SECRET" AND MUST BE HELD IN STRICTEST CONFIDENCE. THE CHINESE LEADERS SEEMED CONFIDENT THAT, WHILE THERE WILL BE SOME FLIGHT OF FINANCIAL CAPITAL FROM HONG KONG IMMEDIATELY AFTER CHINA'S PLANS FOR THE COLONY BECOME KNOWN, INVESTORS WILL RETURN ONCE THEY REALIZE THAT HONG KONG'S ECONOMIC VIABILITY WILL NOT BE THREATENED.

THE LONG HISTORY OF POLITICAL UPHEAVAL THAT CHINA HAS EXPERIENCED SINCE THE CCP CAME TO POWER IN 1949 DOES NOT INSPIRE CONFIDENCE AMONG HONG KONG BUSINESSMEN AND FOREIGN INVESTORS THAT CHINA WILL PROVIDE A

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NLRR M299/1 # 92279

BY RW NARA DATE 12/20/17

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STABLE ECONOMIC ENVIRONMENT IN HONG KONG AFTER 1997. CHINA IS VERY NAIVE IF IT THINKS IT CAN CREATE SUCH CONFIDENCE IN THE NEAR TERM.

3. THE VISITING HONG KONG BUSINESSMEN RAISED THE QUESTION OF CHINA GIVING HONG KONG 15 YEARS ADVANCE NOTICE BEFORE "TAKING BACK" THE COLONY. THE CHINESE LEADERS RESPONDED THAT SUCH NOTIFICATION WOULD BE IMPOSSIBLE SINCE IT WOULD NOT BE IN ACCORD WITH THE PRINCIPLE OF CHINESE SOVEREIGNTY OVER HONG KONG.

4. THE CHINESE LEADERS ADDED THAT CHINA WOULD NOT MAKE ANY COMPROMISES IN ITS POSITION ON THE FUTURE OF HONG KONG WHEN BRITISH PRIME MINISTER MARGARET ((THATCHER)) VISITS CHINA IN THE FALL OF 1982.