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Collection Name LAUX, DAVID: FILES

Withdrawer

CAS 6/11/2010

File Folder CHINA-FOREIGN RELATIONS-HONG KONG (7/6/84-8/14/84)

FOIA

M09-299/1

Box Number 13

COLLINGS

25

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
92558	CABLE	HONG KONG 12667 R 6/21/2012 M299/1	1	7/6/1984	B1
92559	CABLE	232041Z JUL 84 D 12/20/2017 M299/1	1	7/23/1984	B1 B3
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92561	CABLE	251621Z JUL 84 D 12/20/2017 M299/1	1	7/25/1984	B1 B3
92562	CABLE	261730Z JUL 84 D 12/20/2017 M299/1	1	7/26/1984	B1 B3
92563	CABLE	260159Z JUL 84 D 12/20/2017 M299/1	1	7/26/1984	B1 B3
92564	CABLE	RE HONG KONG D 12/20/2017 M299/1	4	7/27/1984	B1 B3
92565	PAPER	RE HONG KONG (P. 2 ONLY) R 6/21/2012 M299/1	1	7/29/1984	B1
92566	CABLE	HONG KONG 14280 R 6/21/2012 M299/1	4	7/31/1984	B1

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92569	PAPER	HONG KONG 14538 <i>R</i> 6/21/2012 M299/1	3	8/2/1984	B1	
92570	PAPER	LONDON 17506 <i>R</i> 6/21/2012 M299/1	3	8/3/1984	B1	
92571	PAPER	HONG KONG 14772 <i>R</i> 6/21/2012 M299/1	7	8/6/1984	B1	
92572	PAPER	BEIJING 14018 <i>R</i> 6/21/2012 M299/1	1	8/7/1984	B1	
92573	CABLE	LONDON 17962 <i>R</i> 6/21/2012 M299/1	2	8/9/1984	B1	
92574	CABLE	STATE 237967 <i>R</i> 6/21/2012 M299/1	3	8/11/1984	B1	
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HK

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LIMITED OFFICIAL USE HONG KONG 12667
E.O. 12356: N/A
TAGS: EFIN, ECON, HK
SUBJECT: HONG KONG DOLLAR BREAKS LOOSE FROM ITS PEG

1. (U) IN LATE AFTERNOON TRADING ON FRIDAY JULY 6, THE HONG KONG DOLLAR BROKE DRAMATICALLY THROUGH THE FLOOR OF THE 7.78-7.82 (HKDOLS PER USDOL) RANGE IN WHICH IT HAD TRADED SINCE THE HKG "LINKED" THE TWO CURRENCIES LAST FALL. BY 5 P.M. IT HAD REACHED 7.95 HKDOLS PER USDOL.

2. (U) HONG KONG FOREX MARKET TRADERS TOLD ECONOFFS THE MARKETS WERE HIGHLY TURBULENT IN THE FINAL HOURS OF DEALING ON FRIDAY. ONE TRADER SAID DEALING APPROACHED A "PANIC SITUATION", WITH ALL BANKS -- INCLUDING THE HONG KONG AND SHANGHAI BANKING CORPORATION (HKSBC) -- FRANTICALLY SEEKING TO BUY U.S. DOLLARS. SIGNIFICANTLY, THE HKSBC -- WHICH AS THE MAJOR NOTE-ISSUING BANK FREQUENTLY ACTS ON BEHALF OF THE HKG -- WAS SELLING, AND NOT BUYING, HONG KONG DOLLARS. HOWEVER, THE TRADER TOLD US ACTUAL HONG KONG DOLLAR TRADES AT THE HIGH EXCHANGE RATES HAD BEEN RATHER THIN.

3. (U) THE TRADERS TOLD US THERE HAD BEEN RUMORS IN THE MARKETS IN RECENT DAYS THAT THE BURGEONING STRENGTH OF THE US DOLLAR WOULD FORCE THE HONG KONG GOVERNMENT TO CHANGE THE PEG. THE MOST WIDELY-RUMORED NEW LEVEL WAS 8 HKDOLS PER USDOL, AND IT WAS TOWARD THIS LEVEL THAT THE HKD DRIFTED.

4. (U) ONE TRADER ADVISED CAUTION IN INTERPRETING THE MOVEMENTS, SUGGESTING THAT THE DROP IN THE HK DOL WAS A MINOR MOVEMENT, AND THAT IT COULD BE CAUSED BY THE RIPPLE EFFECT OF ACTIONS IN THE MARKETS OF OTHER MAJOR CURRENCIES. (IF, FOR EXAMPLE, EUROPEAN AND JAPANESE CENTRAL BANKS MADE A COORDINATED EFFORT TO DEFEND THEIR

CURRENCIES)

5. (U) WHATEVER THE CAUSE, THE HONG KONG ASSOCIATION OF BANKS WAS BELIEVED LIKELY TO RAISE HK DOLLAR INTEREST RATES AT ITS REGULAR MEETING ON FRIDAY AFTERNOON. WITH THE STRENGTH OF THE U.S. DOLLAR IN RECENT DAYS, INTERBANK RATES HAD BEEN FLOATING ABOUT TWO PERCENTAGE POINTS OVER PRIME, AND THE BANKS ARE LIKELY TO WANT TO NARROW THIS DIFFERENTIAL.
COMMENT:

6. (LOU) A SENIOR HKG ECONOMIC POLICYMAKER TOLD US HE WAS AS SURPRISED AS ANYONE ELSE BY THE MOVEMENT. HE TOLD US HE HAD HEARD NOTHING ABOUT ANY PLANS TO CHANGE THE PEG, ALTHOUGH IT WAS POSSIBLE THAT IT COULD BE DONE WITHOUT HIS KNOWLEDGE.

7. (LOU) IT SEEMS UNLIKELY -- THOUGH NOT INCONCEIVABLE -- THAT THE HKG WOULD CHOOSE TO ALTER THE PEG INTENTIONALLY NOW. THE TIMING IS STRANGE: GOVERNOR YOUNG, CHIEF SECRETARY HADDON-CAVE, AND FINANCIAL SECRETARY BREMIDGE ARE ALL OUT OF TOWN AND THE LATTER TWO ARE NOT DUE BACK SOON. IN ADDITION, HKG POLICYMAKERS HAVE TOLD US REPEATEDLY IN RECENT MONTHS THAT THEY ARE WELL AWARE OF THE DANGERS INVOLVED IN ADJUSTING THE PEG, SINCE SPECULATORS COULD EASILY CONCLUDE THAT ONE MOVE COULD LEAD TO OTHERS, THUS LEADING TO DESTABILIZATION OF THE CURRENCY.

8. (LOU) WHILE THIS MOVEMENT MAY TURN OUT TO BE NO MORE THAN A FLASH IN THE PAN, RELATED INTER ALIA TO THE STRENGTH OF THE U.S. DOLLAR, IT COULD HAVE SOME SERIOUS REPERCUSSIONS. EVEN IF THE LOCAL BANKS RAISE INTEREST RATES ENOUGH TO PUSH THE HK DOLLAR BACK INTO ITS "NORMAL" RANGE ON MONDAY MORNING (JULY 9), THE EPISODE WILL BE ENOUGH TO RAISE THE LEVEL OF CONCERN OVER THE HKG'S ABILITY TO MAINTAIN THE "LINK". AS ONE TRADER NOTED TO

US, THE HONG KONG DOLLAR MARKET IS OVERWHELMINGLY AFFECTED BY PSYCHOLOGICAL FACTORS, AND -- UNLESS THE GOVERNMENT WAS INDEED PREPARING TO CHANGE THE PEG VOLUNTARILY -- IT WOULD BE CLEAR TO ALL CONCERNED THAT FOR ONE DAY AT LEAST, THE MARKET BROKE THE PEG... AND COULD DO SO AGAIN.
LEVIN
BT

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NLRR M299 #92558

BY KML NARA DATE 6/21/12

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92560	CABLE	1	7/24/1984	B1
	240322Z JUL 84			B3

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92562	CABLE	1	7/26/1984	B1
	261730Z JUL 84			B3

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92565

Hong Kong

IMR - 29 July 1984

2. HONG KONG: THE VIEW FROM LONDON

Foreign Minister Howe is visiting Hong Kong and Beijing against a backdrop of doubt that an agreement between the UK and the PRC on Hong Kong will be reached by Beijing's September deadline. Among British concerns are: long-range economic relations with the PRC and Hong Kong, the impact of the Hong Kong issue on negotiations over the Falklands and Gibraltar, and, to a lesser extent, the rights of the people of Hong Kong and reactions in Parliament to this aspect of the problem.

* * *

The British have been put in an awkward position by Beijing's proposal for a joint Sino-British commission to deal with the the transitional period until PRC assumption of power in Hong Kong in 1997. Acceptance would undermine confidence in the Hong Kong economy, especially if Beijing insists on basing the commission in Hong Kong itself. Rejection would doom any agreement by the September deadline, meaning the PRC would then unilaterally set forth a solution without British input.

A prime British concern is to safeguard long-range trade and investment relations with the PRC. UK-PRC trade totaled \$600 million in 1983, and the British have significant investments as well. Added to this is the even larger UK stake in Hong Kong itself: \$2.4 billion dollars in trade in 1982, though much of it is with the PRC through Hong Kong. Not only the PRC but Britain also has good economic reasons for ensuring a smooth transition in Hong Kong.

The British know that Argentina and Spain are closely watching the Hong Kong negotiations. In contrast to the Falklands and Gibraltar, however, Hong Kong is mostly leased and its inhabitants are mainly of Chinese, not British, origin. These distinctions are apt to be lost on unsympathetic observers, and any perceived British weakness vis-a-vis the PRC is bound to encourage Argentina and Spain to press their cases harder. Nonetheless, we do not believe Thatcher will weigh these considerations heavily.

The rights of the people of Hong Kong also play a role. HMG's delivery of Hong Kong to the PRC against the wishes of its inhabitants would be the first time in the history of British decolonization that this has happened. That would damage British prestige, but probably would not occasion sustained public outcry in the UK itself. Parliamentarians have reacted with boredom and even annoyance to briefings by visiting delegations from Hong Kong. Fear of a flood of immigrants appears to outweigh public concern for the liberty of the people of Hong Kong.

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BY KML NARA DATE 6/21/12

PEKING, JULY 31, REUTER - CHINESE FOREIGN MINISTER WU XEDIAN SAID TODAY THERE WAS A BREAKTHROUGH IN SINO-BRITISH TALKS ON HONG KONG'S FUTURE DURING THE VISIT OF BRITISH FOREIGN SECRETARY SIR GEOFFREY HOWE TO PEKING.

WU TOLD HONG KONG JOURNALISTS AT PEKING AIRPORT BEFORE LEAVING ON A TRIP TO LATIN AMERICA: "IN SOME IMPORTANT QUESTIONS (DURING THE TALKS WITH HOWE) THE EXCHANGE WAS IN DETAIL."

HE ADDED: "YES, YOU CAN SAY IT WAS A BREAKTHROUGH."

ASKED IF THE TWO SIDES WOULD REACH AN AGREEMENT BY CHINA'S END-OF-SEPTEMBER DEADLINE, WU SAID: "IT IS POSSIBLE WE WILL INITIAL AN AGREEMENT ACCORDING TO SCHEDULE."

HOWE TODAY MET TOP CHINESE LEADER DENG XIAOPING BEFORE LEAVING FOR HONG KONG.

NO DETAILS OF THEIR DISCUSSIONS WERE IMMEDIATELY AVAILABLE, BUT DENG WAS CLEARLY IN HIGH SPIRITS WHEN HE GREETED THE BRITISH MINISTER AT THE GREAT HALL OF THE PEOPLE.

SPEAKING TO HOWE IN FRONT OF FOREIGN REPORTERS, DENG SAID: "I THANK YOU FOR THE GREAT AMOUNT OF WORK YOU HAVE DONE TO SETTLE THIS QUESTION, AND I ALSO WANT TO THANK MRS. (PRIME MINISTER MARGARET) THATCHER.

"IT WAS GENERAL DE GAULLE WHO BROUGHT AN END TO THE HISTORY OF FRENCH COLONIALISM. WE HAVE TO SAY PRIME MINISTER THATCHER BROUGHT AN END TO BRITISH COLONIAL RULE," THE CHINESE LEADER ADDED.

HOWE WAS DUE TO GIVE A PRESS CONFERENCE TOMORROW IN HONG KONG. BRITAIN'S LEASE ON MOST OF THE CROWN COLONY EXPIRES IN 1997, AND IT IS NEGOTIATING WITH CHINA TO ENSURE THAT ITS 5.3 MILLION PEOPLE MAY CONTINUE TO ENJOY THEIR PRESENT CAPITALIST LIFESTYLE AND CIVIL LIBERTIES.

INFORMED SOURCES CLOSE TO THE TALKS TOLD REUTERS TODAY THAT, WHEN HE MET THE PRESS, THE FOREIGN SECRETARY WOULD REVEAL AS MUCH DETAIL AS POSSIBLE ON THE CONTINUING DIALOGUE, BUT WOULD BE CAREFUL TO AVOID DISCUSSING ISSUES WHICH WERE NOT YET SETTLED.

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92566

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~~SECRET~~ SECTION 01 OF 02 HONG KONG 14280

EXDIS
NOFORN
E.O. 12356: DECL: OADR
TAGS: PGOV, PREL, CH, HK, UK
SUBJ: FUTURE OF HONG KONG: DISCUSSION WITH HKG ACTING
- POLAD

1. SECRET/EXDIS/NOFORN - ENTIRE TEXT

2. SUMMARY.

ROUND 19 OF THE SINO-UK TALKS AND THE CONCURRENT SESSIONS OF THE NEGOTIATING WORKING GROUP PRODUCED SOME MODEST PROGRESS AND A PERCEPTIBLE QUICKENING OF MOOD. THE PRINCIPAL PLENARY TOPICS WERE NATIONALITY AND LAND, AND WHILE THE CHINESE STOPPED SHORT OF ENDORSING BRITISH PROPOSALS, LONDON'S TEAM SNIFFED IN THE AIR A NASCENT RECEPTIVITY INDUCING HOPE. THE WORKING GROUP HAS AT LENGTH MADE ITS WAY THROUGH FIVE TOPICS; IT HAS BEEN AN UPHILL CLIMB, AND BRACKETED LANGUAGE REMAINS, BUT THE CHINESE HAVE HERE AND THERE YIELDED TO BRITISH ARGUMENTS. CONSCIOUS THAT THE SEPTEMBER NEGOTIATING DEADLINE PRESSES ON BEIJING AS IT DOES LONDON, ACTING POLAD MARGOLIS IS CAUTIOUSLY OPTIMISTIC THAT THE DAM AT LAST IS BREAKING AND THAT HARD SLOGGING WILL PRODUCE ACCEPTABLE AGREEMENT. THE IMMEDIATE IMPEDIMENT IS LACK OF AGREEMENT ON THE JOINT TRANSITION COMMITTEE ARRANGEMENTS. FOREIGN SECRETARY HOWE IS TAKING THAT UP IN BEIJING NOW; LATE THIS WEEK, AFTER SIR GEOFFREY HAS CONFERRED WITH EXCO AND GIVEN A WEDNESDAY PRESS CONFERENCE HERE, WE EXPECT A FURTHER READOUT.

END SUMMARY.

3. WITH THE CHINESE HAVING EARLIER FIRMLY REJECTED THE PREFERRED BRITISH IDEAS ON DUAL NATIONALITY (SEE PREVIOUS CABLES), THE UK TEAM AT ROUND 19 PROPOSED ADDRESSING THE MATTER BY HAVING THE TWO SIDES ISSUE PARALLEL PRONOUNCEMENTS. THE CHINESE WOULD ANNOUNCE THAT HONG KONG PEOPLE WERE CHINESE CITIZENS OF THE HONG KONG SPECIAL AUTONOMOUS REGION. THE BRITISH WOULD ANNOUNCE THAT BRITISH DEPENDENT TERRITORIES CITIZENS WOULD RETAIN THE TRAVEL RIGHTS ACCORDED THEM

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BY KML NARA DATE 6/21/12

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EXDIS
BY THAT STATUS SUITABLY REMONIKERED. SUCH A SOLUTION, TO BE EFFECTIVE, WOULD REQUIRE THE COOPERATIVE ASSENT OF THIRD COUNTRIES. AS REGARDS TRAVEL BETWEEN HONG KONG AND CHINA, HOWEVER, IT OUGHT TO PROVE WORKABLE BY ALLOWING THE IMMIGRATION AUTHORITIES IN EACH PLACE TO LOOK AT ONE SET OF PAPERS BUT NOT THE OTHER. SINCE THE CHINESE HAD BEEN ADVOCATING THE ADOPTION OF A "ONE EYE OPEN, ONE EYE CLOSED" APPROACH AND THE BRITISH PROPOSAL WAS OF THAT TYPE, MARGOLIS FELT HOPEFUL IT WOULD PROVE ULTIMATELY SALEABLE. HOWEVER, AT THE MOMENT THE IMPASSE OVER THE JOINT TRANSITION COMMITTEE IN MARGOLIS' VIEW PRECLUDED THE PRC TEAM FROM RESPONDING POSITIVELY ON A MAJOR SUBJECT, AND SO THEY LIMITED THEMSELVES TO AGREEING TO CONSIDER THE PROPOSAL.

EXDIS
4. MARGOLIS FINDS THE LAND TOPIC FRAUGHT WITH FRUSTRATINGLY COMPLEX DETAIL. NEVERTHELESS THE ESSENCE OF THE SITUATION IS EASY TO GRASP. THE CHINESE CONTINUE TO FEAR THAT THE BRITS WILL FLOG ALL THE GOOD GROUND AND MAKE OFF WITH THE PROCEEDS, AND SO WANT LEASE PROCEEDS HANDED OVER TO AN AUTHORITY AND DIVIDED INTO PRE- AND POST-1997 SHARES, THE LATTER TO BE HELD IN TRUST. THE BRITISH SAY THAT SUCH AN AUTHORITY IN EFFECT ALREADY EXISTS IN THE FORM OF THE CAPITAL DEVELOPMENT FUND INTO WHICH LEASE PROCEEDS ARE DEPOSITED, THAT THE CHINESE LOSE SIGHT OF THE FACT THAT ALMOST ALL LAND NOW BEING LEASED REQUIRES COSTLY CUT-AND-FILL OR RECLAMATION COSTS, AND THAT AN ALTERNATIVE SUCH AS REQUIRING A BANK OF CHINA CHOP ON LAND LEASES MIGHT SATISFY CHINESE REQUIREMENTS WITHOUT CUMBERSOMELY SETTING UP ANOTHER AUTHORITY. COMMENT: ONE HAS THE FEELING THAT THE RESOLUTION OF THE JOINT TRANSITION COMMITTEE MATTER WILL IMPLICITLY CARRY WITH IT A SOLUTION TO THE QUESTION OF A TRANSITION LAND LEASE AUTHORITY, FOLLOWING WHICH A MODEST AMOUNT OF MUTUAL VERBAL MASSAGE WILL TAKE CARE OF THIS ONE. END COMMENT.

EXDIS
5. THE ROUND 19 PLENARY ALSO DISCUSSED THE JOINT TRANSITION COMMITTEE IDEA ONE MORE TIME, BUT THIS
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~~SECRET~~ SECTION 02 OF 02 HONG KONG 14280

EXDIS
NOFORN

E. O. 12356: DECL: OADR
TAGS: PGOV, PREL, CH, HK, UK
SUBJ: FUTURE OF HONG KONG: DISCUSSION WITH HKG ACTING
WAS REALLY ONLY GOING THROUGH THE MOTIONS GIVEN THAT
BOTH SIDES RECOGNIZED THAT THIS QUESTION WOULD TOP
THE AGENDA AT THE HOWE-WU MEETINGS A FEW DAYS LATER.
MEANWHILE THE WORKING GROUP OF NEGOTIATORS HAS
COMPLETED ITS EFFORTS ON FIVE TOPICS, ACCORDING TO
MARGOLIS. THE FINAL TEXTS ALL CONTAIN LANGUAGE
BRACKETED FOR RESOLUTION AT THE PLENARY SESSIONS.
CLOSE, EVEN EXHAUSTING ARGUMENT HAS BEEN NECESSARY
AT EVERY STEP OF THE WAY, BUT THE BRITISH ARE
ENCOURAGED BECAUSE THE CHINESE HAVE YIELDED GROUND
WHEN A PERSUASIVE CASE HAS BEEN MADE.

6. ONE EXAMPLE OF WORKING GROUP NEGOTIATION AS
DESCRIBED BY MARGOLIS IS OF INTEREST NOT FOR THE
SUBSTANCE INVOLVED BUT FOR SUGGESTING THAT THE
CHINESE HAVE COME A LONG WAY TOWARD CONTEMPLATING
THE KIND OF DETAIL WHICH LONDON SEES AS ESSENTIAL
TO WINNING THE APPROVAL OF PARLIAMENT AND THE
ACQUIESCENCE OF THE HONG KONG PUBLIC. AT THE STRONG
BEHEST OF THE HONG KONG LEGAL AND JUDICIAL COMMUNITY,
THE BRITISH ARE ARGUING THAT THE CRITERIA FOR
SELECTING THE COMMITTEES WHO SELECT JUDGES SHOULD
DIFFER FROM THOSE FOR COMMITTEES WHICH DISMISS
JUDGES FOR INCOMPETENCE OR MALFEASANCE, BECAUSE THE
NECESSARY EXPERTISE WOULD BE DIFFERENT IN THE TWO
INSTANCES.

7. FOREIGN SECRETARY HOWE'S JULY 28 SESSIONS IN
BEIJING WERE AS EXPECTED PRESENTATIONAL IN NATURE,
AND MARGOLIS DID NOT HAVE ANY CABLE TAKE ON THE
JULY 29 SESSIONS WHEN WE SAW HIM ON JULY 30. HOWE
CONSULTS WITH EXCO SOON AFTER HIS JULY 31 AFTERNOON
ARRIVAL FROM BEIJING, AND THEN GIVES A PRESS CON-
FERENCE LATE AUGUST 1 PRIOR TO RETURNING TO LONDON.
MARGOLIS HAS DRAFTED A STATEMENT WHICH MOVES
SIR GEOFFREY FROM THE "IT IS POSSIBLE TO CONTEMPLATE..."
MODE OF HIS APRIL PRESS CONFERENCE INTO A "WE CAN
SAY WITH SOME CONFIDENCE" MODE INTENDED BOTH TO
REASSURE THE PUBLIC AND TO LIFT THE VEIL OF
CONFIDENTIALITY BY A FEW MILLIMETERS.

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NATIONAL SECURITY COUNCIL
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8. MARGOLIS LIKE POLAD MCLAREN IS CONVINCED THAT DENG XIAOPING IS BENT ON PROCLAIMING THE REUNIFICATION OF HONG KONG AT THE REGIME'S 35TH ANNIVERSARY CELEBRATION ON OCTOBER 1. FEARING THAT A FALSE STEP MIGHT TRIGGER DENG'S IRE WITH UNPREDICTABLE RESULTS, MARGOLIS STOPS SHORT OF ADVOCATING THAT THE BRITISH PLAY HARDBALL IN THE AUGUST-SEPTEMBER NEGOTIATIONS. BUT HE IS CLEARLY HEARTENED BY THE PERCEPTION THAT THE PRESSURE IS FELT IN BEIJING AS IT IS IN LONDON.

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~~CONFIDENTIAL~~ SECTION 01 OF 03 HONG KONG 14538

E.O. 12356: DECL: OADR

TAGS: PREL, HK, CH, UK

SUBJECT: HONG KONG'S FUTURE: REACTION TO HOWE'S STATEMENT

REF: HONG KONG 14447

1. CONFIDENTIAL - ENTIRE TEXT.

2. SUMMARY:

WHILE RESERVING FINAL JUDGMENT UNTIL THEY CAN EXAMINE THE AGREEMENT IN ITS ENTIRETY, HONG KONG 1997-WATCHERS HAVE REACTED QUITE POSITIVELY TO SIR GEOFFREY HOWE'S AUGUST 1 REPORT ON THE CURRENT STATUS OF THE SINO-BRITISH TALKS ON THE TERRITORY'S FUTURE (REFTEL). LOCAL OBSERVERS VIEW HOWE'S REMARKS AS FIRM EVIDENCE THAT THE TWO GOVERNMENTS ARE ON SCHEDULE TO CONCLUDE THEIR NEGOTIATIONS SUCCESSFULLY BY THE END OF SEPTEMBER. THIS PROSPECT, COUPLED WITH HOWE'S FORCEFUL ASSURANCE THAT THE FINAL PACKAGE WILL BE A DETAILED, LEGALLY BINDING INTERNATIONAL AGREEMENT WHICH WILL "COMMAND THE CONFIDENCE OF THE PEOPLE WHO LIVE, WORK, TRADE, AND INVEST HERE," SHOULD PROVIDE JUST THE MORALE-BOOST NEEDED TO SEE HONG KONG THROUGH THE NEXT TWO MONTHS. THE INITIAL REACTION OF HONG KONG'S SEVERELY DEPRESSED FINANCIAL MARKETS WAS HIGHLY FAVORABLE. HOWEVER, CONSIDERABLE VOLATILITY IS LIKELY TO CONTINUE IN HONG KONG'S MARKETS AT LEAST UNTIL THE PROMISED SEPTEMBER ANNOUNCEMENT.

END SUMMARY.

3. A MAJOR COMPONENT OF HOWE'S STATEMENT CONSISTED OF A SUMMARY OF TEN "ESSENTIAL PROVISIONS" AGREED UPON BY THE TWO SIDES. THESE POINTS INCLUDE THE MAINTENANCE OF THE

PRESENT LEGAL SYSTEM AND THE ROLE OF HONG KONG'S LEGISLATIVE BODIES; ITS AUTONOMOUS POWER TO DECIDE ITS OWN ECONOMIC, FINANCIAL AND TRADE POLICIES; ITS SEPARATENESS AS A "CUSTOMS TERRITORY," ALLOWING ITS CONTINUED PARTICIPATION IN INTERNATIONAL ORGANIZATIONS AND AGREEMENTS, ENJOYING ITS OWN QUOTAS AND TARIFF PREFERENCES; THE CONTINUING CONVERTIBILITY OF THE HONG KONG DOLLAR; MAINTAINING THE CIVIL SERVICE AND ITS PENSION RIGHTS, SHIPPING, AND EDUCATION; THE FREE MOVEMENT OF BOTH CAPITAL AND PEOPLE, AND THE PRESERVATION OF THE RIGHTS AND FREEDOMS WHICH THE PEOPLE OF HONG KONG NOW ENJOY. MANY OBSERVERS NOTED THAT ALL OF THESE POINTS HAVE ALREADY BEEN PROMISED BY VARIOUS CHINESE OFFICIALS IN THE PAST 18 MONTHS. (SEE FBIS HK010918 AUGUST.) NONETHELESS, IT IS HEARTENING THAT THE DRAFT AGREEMENT NOW SPELLS OUT TO THE SATISFACTION OF THE BRITISH HOW THESE CRITICAL ELEMENTS WILL BE MAINTAINED.

4. REACTION TO THE NEWS ABOUT PLANS TO ESTABLISH A "JOINT LIAISON GROUP" AND THE THREE REMAINING UNRESOLVED ISSUES IDENTIFIED BY HOWE -- LAND, CIVIL AVIATION AND NATIONALITY -- WAS MUTED. MOST CONSIDER THE LAND AND NATIONALITY ISSUES TO BE PARTICULARLY CRITICAL, BUT THE CONSENSUS IS THAT CHINA AND BRITAIN WILL NOT LET THESE QUESTIONS PUT THE ENTIRE AGREEMENT AT RISK. INTERESTINGLY, THE AUGUST 9 EDITION OF THE FAR EASTERN ECONOMIC REVIEW, WHICH WENT ON SALE THE MORNING AFTER HOWE'S PRESS CONFERENCE, POINTED TO DEFENSE AND THE CONSTITUTIONAL QUESTION AS OTHER ISSUES TO BE SETTLED IN THE NEXT TWO MONTHS. IN THE Q AND A SESSION AFTER PRESENTING HIS STATEMENT, SIR GEOFFREY SIDE-STEPPED QUESTIONS ABOUT WHETHER THE HONG KONG GOVERNMENT'S RECENT PROPOSALS FOR POLITICAL REFORM HAD BEEN DISCUSSED IN BEIJING AND THE PLA'S ROLE IN HONG KONG'S INTERNAL SECURITY. JOHN CHAN (PROTECT), THE NUMBER TWO ON THE HKG TEAM THAT HAS SPENT THE PAST YEAR TOILING OVER THE BRITISH POSITION PAPERS FOR POST-1997 MODALITIES, IMPLIED TO US THAT HOWE'S RESPONSE ON THE POLITICAL REFORM QUESTION HAD BEEN AN EQUIVOCATION. CHAN SAID THE ENTIRE ISSUE OF FORM OF GOVERNMENT, SELECTION OF SENIOR OFFICERS, LINES OF AUTHORITY, ETC. "WOULD HAVE TO HAVE BEEN DISCUSSED"

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~~CONFIDENTIAL~~ SECTION 02 OF 03 HONG KONG 14538

E.O. 12356: DECL: OADR

TAGS: PREL, HK, CH, UK

SUBJECT: HONG KONG'S FUTURE: REACTION TO HOWE'S STATEMENT
DURING HOWE'S BEIJING VISIT.

5. WHILE CONTINUING TO QUESTION WHETHER THE JOINT LIAISON GROUP WILL IN FACT REFRAIN FROM INTERFERING IN THE ACTUAL ADMINISTRATION OF HONG KONG, OBSERVERS SEE THIS ISSUE AS ONE ON WHICH THE BRITISH HAD TO DEMONSTRATE FLEXIBILITY IN ORDER TO ACHIEVE OTHER CRUCIAL GOALS. AS IN MANY OTHER AREAS OF THE EVOLVING HONG KONG-CHINESE-BRITISH RELATIONSHIP, THEY ARGUE, ONE MUST AT LEAST INITIALLY ACCEPT THAT CHINA WILL KEEP ITS PROMISES. LEGISLATIVE COUNCILLOR CHAN YING-LUN POINTED TO THE JOINT LIAISON GROUP ISSUE AS A "TEST CASE" WHERE THE CHINESE GOVERNMENT CAN DEMONSTRATE ITS TRUSTWORTHINESS AND "... THUS WIN THE CONFIDENCE OF THE PEOPLE."

6. THE LOCAL PRO-PRC PRESS PRAISED HOWE'S STATEMENT AS A CLEAR HARBINGER OF A SUCCESSFUL CONCLUSION TO THE TALKS. THEY ALSO GAVE PROMINENT COVERAGE TO A XINHUA NEWS AGENCY (BEIJING) DISPATCH ON AN UNIDENTIFIED CHINESE FOREIGN MINISTRY SPOKESMAN'S STATEMENT ABOUT THE 1997 TALKS (FBIS OW011536 AUGUST). THE STATEMENT FEATURED THE SINO-BRITISH JOINT LIAISON GROUP, WHICH IT SAID THE TWO SIDES HAD AGREED TO ESTABLISH "... IN ORDER TO FURTHER THEIR COMMON AIM AND PROMOTE THE COOPERATIVE RELATIONSHIP WHICH ALREADY EXISTS BETWEEN THE TWO GOVERNMENTS OVER HONG KONG". IN A SLIGHT, BUT MEANINGFUL, VARIANT FROM HOWE'S STATEMENT, XINHUA LISTS "TO DISCUSS MATTERS RELATING TO THE SMOOTH TRANSFER OF GOVERNMENT IN 1997" AS ONE OF THE

GROUP'S FUNCTIONS. IT ALSO REVEALED THAT THE GROUP WILL BE BASED IN HONG KONG FROM JULY 1, 1988 AND WILL DISBAND ON JANUARY 1, 2000.

7. SENIOR UNOFFICIAL MEMBER OF HK'S EXECUTIVE COUNCIL SIR S. Y. CHUNG, WHO HAS BEEN A CONSISTENT ADVOCATE OF A HARD-LINE APPROACH TO THE TALKS, DEFENDED THE BRITISH DECISION TO AGREE TO THE ESTABLISHMENT OF THE JOINT LIAISON GROUP. HE EMPHASIZED THE RESTRICTIVE NATURE OF THE GROUP'S TERMS OF REFERENCE AND THE POSSIBLE BENEFITS OF HAVING IT REMAIN IN EXISTENCE BEYOND 1997. SIR S.Y. SAID THAT THE UNOFFICIAL MEMBERS OF THE LEGISLATIVE AND EXECUTIVE COUNCILS ARE PLEASED THAT SIR GEOFFREY HAS SUCCEEDED IN ENSURING THE INCLUSION OF THREE MAJOR ELEMENTS IN THE FINAL AGREEMENT, ELEMENTS UMELCO HOLD TO BE OF PRIMARY IMPORTANCE TO THE HONG KONG PEOPLE. THUS, THE AGREEMENT WILL:

-- INCLUDE DETAILS DESCRIBING THE VARIOUS EXISTING SYSTEMS AND FREEDOMS;

-- BE LEGALLY BINDING ON BOTH PARTIES; AND

-- CONTAIN A CLAUSE STIPULATING THAT THE TERMS OF THE AGREEMENT WILL BE REFLECTED IN THE BASIC LAW GOVERNING HONG KONG (TO BE DRAFTED BY CHINA WITH HONG KONG INPUT). THE LAST POINT WAS NOT CONTAINED IN HOWE'S STATEMENT, BUT RATHER AROSE IN THE Q AND A SESSION.

8. HOWE'S ANNOUNCEMENT HAD A HIGHLY FAVORABLE EFFECT ON HONG KONG'S FINANCIAL MARKETS. IMMEDIATELY AFTER THE ANNOUNCEMENT, WITH HONG KONG MARKETS ALREADY CLOSED, BOTH THE HONG KONG DOLLAR (HKD) AND LOCAL STOCKS ROSE SHARPLY IN VALUE ON LONDON MARKETS. WHEN HONG KONG MARKETS OPENED ON AUGUST 2, THE HANG SENG INDEX IMMEDIATELY

GAINED 67 POINTS, OR 8 PERCENT OF ITS VALUE. AT THE END OF THE DAY, THE INDEX CLOSED AT APPROXIMATELY THE SAME LEVEL. THE VOLUME OF TRADING WAS EXTREMELY HEAVY -- TRIPLE THAT IN RECENT WEEKS. SIMILARLY, DESPITE CONTINUING STRENGTH OF THE U.S. DOLLAR (USD) ON FOREIGN EXCHANGE MARKETS, THE HKD ROSE IN VALUE AGAINST THE USD, AND WAS QUOTED AT NOON AT 7.825 - 7.835, VERY CLOSE TO THE HKG'S BT

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ING ON THE QUESTION OF RENTS IN PUBLICLY DISCUSSING THE
LAND ISSUE. IT IS LIKELY THAT DETAILS OF THE NEGOTIATING
POSITIONS OF BOTH SIDES WILL BECOME MORE WIDELY KNOWN IN
THE COMING DAYS.)
WILLIAMS
BT

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~~CONFIDENTIAL~~ SECTION 03 OF 03 HONG KONG 14538

E.O. 12356: DECL: OADR
TAGS: PREL, HK, CH, UK
SUBJECT: HONG KONG'S FUTURE: REACTION TO HOWE'S STATEMENT
DESIRED TWO-CENT BAND AROUND THE 7.8 HKD TO 1 USD PEG,
ALTHOUGH IT WEAKENED SLIGHTLY BY DAY'S END.

9. PREDICTABLY, INITIAL PUBLIC REACTION OF ECONOMIC AND
FINANCIAL LEADERS WAS UNIFORMLY FAVORABLE. HONG KONG
AND SHANGHAI BANKING CORP. CHAIRMAN MICHAEL SANDBERG,
CHARTERED BANK PRESIDENT BILL BROWN, AND THE CHAIRMAN OF
ONE OF THE STOCK EXCHANGES AND THE GOLD EXCHANGE, WOO
HON-FAI, WERE ALL QUOTED IN THE PRESS WITH HIGHLY FAVOR-
ABLE REACTIONS. THE ANNOUNCEMENT AND ACCOMPANYING POSI-
TIVE RESPONSE DO NOT MEAN THAT HONG KONG'S MARKETS ARE
PAST THEIR PERIOD OF NERVOUSNESS, HOWEVER. AFTER THE
INITIAL EUPHORIA WEARS OFF, INDUSTRIALISTS AND INVESTORS
(AND FOREIGN MARKET ANALYSTS AS WELL) WILL REALIZE THAT
THERE REMAIN MANY UNANSWERED QUESTIONS ABOUT THE DETAILS
OF THE FINAL ACCORD. CONSIDERABLE VOLATILITY IS LIKELY
TO CONTINUE IN HONG KONG'S MARKETS AT LEAST UNTIL THE
PROMISED SEPTEMBER ANNOUNCEMENT.

10. IN PARTICULAR, HOWE'S SPECIFIC MENTION OF THE LAND
ISSUE AS AN UNRESOLVED QUESTION WILL HAVE A GENERAL DE-
PRESSING EFFECT ON THE STOCK MARKET, WHICH IS HEAVILY
INFLUENCED BY ISSUES OF PROPERTY DEVELOPMENT FIRMS.
WHILE WE ARE AWARE THAT THE PRINCIPAL QUESTION DIVIDING
THE BRITISH AND THE CHINESE ON THIS POINT IS THE DIVISION
OF THE RENTS FROM LEASE RENEWALS, MARKET PARTICIPANTS
ARE NOT PRIVY TO THIS INFORMATION. (IT SHOULD BE NOTED,
HOWEVER, THAT PRO-PRC HONG KONG CHINESE HAVE BEGUN FOCUS-

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E.O. 12356: DECL: OADR
TAGS: PREL, CH, HK, UK
SUBJECT: FUTURE OF HONG KONG: LONDON UPDATE

1. (SECRET ENTIRE TEXT.)

2. FCO OFFICIALS BRIEFED US ON RECENT HONG KONG DEVELOPMENTS ON 2 AUGUST AFTER HOWE'S RETURN TO LONDON, SUPPLEMENTING WITH A FEW ADDITIONAL DETAILS HOWE'S PRESS CONFERENCE AND PUBLIC STATEMENTS.

3. AS WAS APPARENT FROM THE LAST LONDON UPDATE, HOWE SET OFF FOR BEIJING WITH LITTLE OPTIMISM THAT A BREAKTHROUGH WOULD OCCUR. HIS OBJECTIVE WAS TO GIVE THE NEGOTIATIONS ON THE OVERALL AGREEMENT A BOOST, AND TRY TO MAKE SOME PROGRESS ON THE JOINT LIAISON GROUP. HE EXPECTED TO RETURN TO BEIJING IN SEPTEMBER TO TACKLE THE GUTS OF THE MAIN AGREEMENT. HOWEVER, SHORTLY AFTER HOWE ARRIVED, IT BECAME CLEAR THAT THE CHINESE WISHED TO "BREAK THE BACK OF THE NEGOTIATIONS" THIS TIME, AND WERE PREPARED TO MAKE SOME COMPROMISES TO ENSURE MEANINGFUL PROGRESS.

JOINT LIAISON GROUP:

4. THE "NEGOTIATIONS GROUP" LED BY AMBASSADOR RICHARD EVANS AND ASSISTANT FM ZHOU NAN WENT TO WORK ON THE LIAISON ISSUE. THE CHINESE DID NOT FOLLOW THE BRITISH LEAD IN SETTING THE ISSUE OF LOCATION FOR THE LIAISON OFFICE ASIDE, BUT INSISTED ON MOVING TO RESOLVE THE FULL RANGE OF ISSUES SURROUNDING THE PRE-1997 LIAISON FUNCTION. THEY LET IT BE KNOWN THAT IF THE BRITISH WOULD CONCEDE SOMETHING ON THE LOCATION OF THE ENTITY IN HONG KONG, THEY WOULD ALLOW THE ENTITY TO FUNCTION BEYOND 1997, DELAY ITS LOCATION IN HONG KONG, AND SCALE DOWN THE FUNCTIONS AND SIZE. THE RESULT WAS THE BY NOW FAMILIAR AGREEMENT:

-- THE JOINT LIAISON GROUP (THIS NAME IS NOW FORMALLY AGREED) WILL BE COMPRISED OF 10 MEMBERS, FIVE SELECTED BY EACH SIDE. THE UK WILL BE FREE TO APPOINT HONG KONG GOVERNMENT MEMBERS, SO LOCAL REPRESENTATION IS NOW ASSURED.

-- THE GROUP WILL COME INTO EXISTENCE WHEN THE OVERALL AGREEMENT COMES INTO FORCE AND FUNCTION THROUGH THE YEAR 2000, AFTER THE ACTUAL TRANSFER

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DTG: 031821Z AUG 84 PSN: 072222

OF SOVEREIGNTY FROM THE UK TO CHINA.

-- THE GROUP WILL HAVE NO FIXED BASE OF OPERATIONS UNTIL 1 JULY 1988, WHEN IT WILL ESTABLISH A BASE IN HONG KONG. THROUGHOUT ITS LIFE THE GROUP WILL MEET RANDOMLY IN LONDON, HONG KONG AND BEIJING.

-- THE THREE FUNCTIONS OF THE GROUP WILL BE 1) LIAISON, 2) CONSULTATION AT THE IMPLEMENTATION OF THE AGREEMENT, AND 3) EXCHANGE OF INFORMATION. PERHAPS MORE IMPORTANT IS WHY THE GROUP WILL NOT DO -- BE AN ORGAN OF POWER HAVE A SUPERVISORY ROLE, OR TAKE PART IN THE ADMINISTRATION OF HONG KONG. THE BRITISH HAVE EXPLICIT HIGH-LEVEL ASSURANCES FROM THE CHINESE AT THESE POINTS WITH WHICH THEY SEEM QUITE COMFORTABLE. THE CHINESE AGREED THAT THE BRITISH COULD MAKE THOSE PROSCRIBED AREAS PUBLIC, AND IN FACT HAVE MADE A STATEMENT ON THIS THEMSELVES.

5. AMONG THE ISSUES WHICH THE JOINT LIAISON GROUP WILL CONSIDER ARE: PRESERVATION OF HONG KONG'S STATUS IN GATT, STATUS OF THE MORE THAN 200 TREATIES BRITAIN HAS EXTENDED TO HONG KONG, CONSISTENCY BETWEEN HONG KONG'S CONSTITUTIONAL DEVELOPMENT UP TO 1997 AND THE BASIC LAW THE CHINESE ARE DRAFTING THAT WILL GOVERN HONG KONG SUBSEQUENTLY. THE AGREEMENT:

6. THE WORKING GROUP HEADED BY DAVID WILSON ON THE UK SIDE CONTINUED TO WORK WITH RENewed ENERGY ON THE TEXT OF THE BASIC AGREEMENT. THE ESSENTIAL COMPROMISE SEEMED TO BE THAT THE BRITISH GAVE WAY ON THE LENGTH AND LEVEL OF DETAIL OF THE AGREEMENT, WHILE THE CHINESE AGREED TO MAKE IT BUT

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~~SECRET~~ SECTION 03 OF 03 LONDON 17506

NODIS

E.O. 12356: DECL: OADR
TAGS: PREL, CH, HK, UK
SUBJECT: FUTURE OF HONG KONG: LONDON UPDATE
ACROSS THE BOARD. MOST OF THE PRESS, FOR THE FIRST
TIME QUITE WELL INFORMED, IS GIVING HOWE CREDIT FOR
A "SIGNIFICANT" ACHIEVEMENT UNDER THE CIRCUMSTANCES.
THERE HAS BEEN SOME NIT-PICKING CRITICISM SUGGESTING
THAT HOWE COULD HAVE DONE BETTER IN KEEPING THE
JOINING LIAISON GROUP PHYSICALLY OUT OF HONG KONG,
SOME APPREHENSION ABOUT TRUSTING ANYONE TO IMPLEMENT
AN AGREEMENT 13 YEARS HENCE, AND SOME MORAL MARKERS
LAID DOWN ABOUT FINAL RESOLUTION OF THE NATIONALITY
ISSUE. BUT BY AND LARGE THE REACTION HAS BEEN ONE
OF ADMIRATION FOR HOWE AND HIS TEAM FOR ACCOMPLISHING
AS MUCH AS THEY DID WITH WHAT IS WIDELY RECOGNIZED
TO BE A WEAK HAND.

NEXT STEPS:

-- THE 20TH ROUND OF NEGOTIATIONS WILL OCCUR
AS SCHEDULED 8-9 AUGUST. THE WORKING GROUP
WILL RECONVENE AUGUST 13 AFTER A WELL-DESERVED
REST. INFORMAL UK-CHINA CONTACTS WILL PROBABLY
INCREASE IN COMING WEEKS. WU SUGGESTED THAT HE
AND HOWE COULD GET TOGETHER ON THE MARGINS OF
THE UNGA IN NEW YORK TO IRON OUT DETAILS; BOTH
SIDES SEEM TO BELIEVE THAT ANOTHER FOREIGN
SECRETARY-LEVEL VISIT TO EITHER CAPITAL WILL NOT
BE NECESSARY UNTIL THE AGREEMENT IS READY TO BE
SIGNED. PRICE
BT

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~~SECRET~~ SECTION 01 OF 04 HONG KONG 14772

EXDIS
NOFORN

E. O. 12356: DECL: OADR
TAGS : PGOV, PREL, CH, HK, UK
SUBJECT : FUTURE OF HONG KONG: DISCUSSION WITH HKG
- ACTING POLAD
REF : HONG KONG 14280

1. SECRET/EXDIS/NOFORN - ENTIRE TEXT

2. SUMMARY. ACTING POLAD MARGOLIS GLOWS WITH OPTIMISM AND RELIEF FOLLOWING THE ACCOMPLISHMENTS MADE DURING FOREIGN SECRETARY HOWE'S VISIT TO BEIJING. HE DESCRIBES THE CHINESE NEGOTIATORS AS AT FIRST TAKEN ABACK AT THE DISCOVERY THAT THE BRITISH WERE SET TO HANG TOUGH ON THE JOINT TRANSITION COMMITTEE, AND THEN AS DRIVEN TO ACHIEVE RAPID AGREEMENT UNDER ZHAO ZIYANG'S AEGIS, IN ORDER TO OBVIATE THE POSSIBILITY THAT DENG XIAOPING MIGHT EXPLODE WHEN MEETING WITH HOWE.

- THE COMPROMISE ON THE JOINT TRANSITION COMMITTEE HAS RECEIVED THE MOST MEDIA PLAY, BUT IN REALITY, SAYS MARGOLIS, IT WAS CHINESE ACCEPTANCE OF THREE STIPULATIONS ON THE CONTENT OF THE AGREEMENT WHICH ASSURED SUCCESS BY MEETING BRITAIN'S MINIMUM REQUIREMENTS:

- -- THE SINO-BRITISH UNDERTAKING WILL HAVE THE STATUS OF AN INTERNATIONAL AGREEMENT;

- -- THE DETAILED ANNEXES WILL BE AS BINDING AS THE BROAD-BRUSH MAIN AGREEMENT; AND

- -- HONG KONG'S BASIC LAW WILL BE WRITTEN IN CONFORMITY WITH THE PROVISIONS OF THE AGREEMENT.

- MARGOLIS CONFIRMED THAT BY THE END OF SEPTEMBER THE NEGOTIATORS MUST REACH AGREEMENT ON LAND LEASES, CIVIL AVIATION, AND NATIONALITY AND MOREOVER MUST ACHIEVE ADDITIONAL UNDERSTANDINGS ON QUESTIONS OF DEFENSE AND OF THE FORM AND SELECTION OF THE POST-1997 GOVERNMENT. BUT HE SEES THESE AS MINOR OBSTACLES COMPARED WITH THOSE ALREADY HURDLED, AND LOOKS WITH CONFIDENCE TO A SEPTEMBER INITIALLING AND DECEMBER SIGNATURE OF A FINISHED AGREEMENT. END SUMMARY.

DECLASSIFIED

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BY Kml NARA DATE 6/21/12

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3. ACTING POLITICAL ADVISER RICHARD MARGOLIS TOLD ME HE AS YET HAD NO LONDON GUIDANCE AS TO WHAT HE OUGHT TO TELL US, AND ACCORDINGLY ASKED FOR PARTICULAR CARE IN OUR NOT REVEALING TO HIS BRITISH COLLEAGUES THE CONTENT OF HIS BRIEFING. THE HOWE VISIT BEGAN WITH THE DELIVERY OF A THATCHER GOODWILL LETTER TO ZHAO (NOT DENG AS THE PRESS REPORTED) AND WITH AN ITERATION OF POSITIONS WHICH REVEALED THAT THE BRITISH WERE NOT PREPARED TO YIELD TO CHINESE INSISTENCE THAT THE JOINT TRANSITION COMMITTEE BE BASED IN HONG KONG.

4. THE BRITISH FELT THAT THE CRUNCH IN THE NEGOTIATIONS WOULD COME IN SEPTEMBER, PROBABLY DURING A SECOND HOWE VISIT TO BEIJING. HOWEVER, THEY SOON REALIZED THAT THE CHINESE HAD DECIDED THAT NOW WAS THE HOUR AND MOREOVER HAD ANTICIPATED BRITISH CAPITULATION ON THE JOINT COMMITTEE PROPOSALS. FOR SOME TIME THE ATMOSPHERE WAS, IN MARGOLIS' WORDS, "LIKE CARRYING A BOTTLE OF NITROGLYCERINE WRAPPED IN COTTON-WOOL". THE BRITISH DISCERNED IN THE MANNER AND OBLIQUE COMMENTS OF THEIR CHINESE COUNTERPARTS A PROFOUND FEAR OF HOW DENG MIGHT REACT AT A MEETING WITH HOWE IF HOWE AND ZHAO HAD NOT REACHED AN UNDERSTANDING. ON THE OTHER HAND, IF HOWE AND ZHAO HAD ALREADY AGREED, THE LIKELIHOOD OF DENG'S OBJECTING WAS SEEN AS VIRTUALLY NIL.

5. WITH THE CHINESE THUS UNDER PRESSURE AND TAKEN ABACK BY LONDON'S HARD LINE ON THE JOINT COMMITTEE, SERIOUS NEGOTIATION AT LAST BEGAN. IN A CONVERSATION WITH PERCY CRADOCK, ZHOU NAN OFFERED TO DELAY THE JOINT COMMITTEE'S BASING IN HONG KONG UNTIL 1986 AND TO PROLONG

ITS EXISTENCE PAST 1997. GIVEN CHINA'S EARLIER REPEATED INSISTENCE THAT ANY POST-1997 UK ROLE WAS UNTHINKABLE, THE BRITISH WERE ASTONISHED AT THE LATTER CONCESSION, WHICH SUBSEQUENTLY WAS DEFINED MORE PRECISELY AS EXTENDING TO THE YEAR 2000. THE 1986 HONG KONG BASING WAS HAGGLED BACK TO 1988 AND WHEN THE CHINESE AGREED THAT THE JOINT COMMITTEE SHOULD BE A LIAISON AND CONSULTATION BODY PRECLUDED FROM BECOMING AN "ORGAN OF POWER" THE COMPROMISE BECAME ACCEPTABLE TO THE BRITISH. ASKED WHETHER THE COMMITTEE'S SCOPE WOULD WIDEN AFTER 1988, BT

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~~SECRET~~ SECTION 02 OF 04 HONG KONG 14772

EXDIS
NOFORN

E. O. 12356: DECL: OADR
TAGS : PGOV, PREL, CH, HK, UK
SUBJECT : FUTURE OF HONG KONG: DISCUSSION WITH HKG
MARGOLIS REPLIED THAT THERE WAS NO PROVISION FOR IT TO
DO SO. HOWEVER, A SUBSTANTIAL PORTION OF ITS PRE-1988
FLOATING-LOCALE WORK WOULD INVOLVE HONG KONG'S INTERNA-
TIONAL STATUS, WHILE SUBSEQUENT TO 1988 ITS EFFORTS
PRESUMABLY WOULD FOCUS EVER MORE CLOSELY ON DETAILED
ARRANGEMENTS FOR THE TRANSFER OF POWER.

6. FROM LONDON'S POINT OF VIEW, SAID MARGOLIS, BEIJING'S
CONCESSIONS ON THE JOINT COMMITTEE, THOUGH OF GREAT
IMPORTANCE, WERE LESS VITAL THAN THOSE ON THE CONTENT
OF THE AGREEMENT ITSELF. PART OF THE REASON WHY THE
LATTER HAVE ESCAPED MEDIA EMPHASIS IS THAT OUTSIDERS
DID NOT KNOW HOW TOUGH BEIJING'S PROPOSALS HAD BEEN.
THE CHINESE HAD WANTED MERELY TO LIST THEIR 12 POINTS,
NOTE THAT IT WAS THE DESIRE OF THE ONE BILLION CHINESE
"INCLUDING THE 5.5 MILLION PEOPLE OF HONG KONG" TO ACHIEVE
REUNIFICATION, AND TO HAVE THE BRITISH SIMPLY RECOGNIZE
THE CHINESE POSITION.

7. BUT WITH THREE CONCESSIONS TO SIR GEOFFREY HOWE
THE CHINESE MET THE BRITISH CONDITIONS FOR ACCEPTANCE:

-- ONE OF THE AGREED PARAGRAPHS WILL STATE THAT THE
TWO SIDES "AGREE THAT ... ", AND THIS LANGUAGE, IN THE
VIEW OF FCO EXPERT FRED BURROWS, SUFFICES TO GIVE THE
MUTUAL UNDERTAKING THE FORCE OF AN INTERNATIONAL AGREEMENT;
-- A SECOND PROVISION ACCORDS THE ANNEXES FORCE
EQUAL TO THAT OF THE MAIN AGREEMENT; AND

-- A THIRD PASSAGE STIPULATES THAT THE BASIC LAW OF
HONG KONG WILL BE WRITTEN IN ACCORDANCE WITH THE PRO-
VISIONS OF THE AGREEMENT.

8. THE CHINESE WOULD STILL NOTE AND THE BRITISH RECOGNIZE
THE REUNIFICATION DESIRE OF THE BILLION CHINESE, BUT
REFERENCE TO THE 5.5 MILLION OF HONG KONG WAS NOW DELETED,
MARGOLIS CONTINUED. HE FIGURED THAT AS A SOP TO CHINESE
IRRIDENTIST SENTIMENT THE UK COULD SAFELY ENDORSE THIS
OVERALL CLAIM, WITH NO COMMENT MADE, HE WRYLY ADDED, AS

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TO WHETHER SUCH REUNIFICATION WAS UNIVERSALLY CRAVED UNDER THE CURRENT CHINESE REGIME. HE ALSO LUMPED IN THE CATEGORY OF COSMETIC EGO MASSAGE SIR GEOFFREY HOWE'S PRESS CONFERENCE PAEAN TO THE ONE-COUNTRY TWO-SYSTEMS CONCEPT, WHICH HE SAID APPEARED TO BE DENG'S PERSONAL PRIDE, SEEN AS A PRESCRIPTION FOR RESOLVING NOT ONLY THE GERMAN AND KOREAN PROBLEMS BUT ALSO, INEXPLICABLY, THAT OF THE SPRATLYS.

9. AS SIR S.Y. CHUNG'S PUBLIC COMMENTS INDICATED, UMELCO HAD BEEN VERY POSITIVE, EVEN "GENEROUS", IN ITS REACTION TO THE HOWE-CHINESE RESULTS. LYDIA DUNN HAD INTELLIGENTLY ASKED WHETHER, WITH THE JOINT COMMITTEE AGREED, THE UK HAD ANY LEVERAGE WITH WHICH TO NEGOTIATE THE REMAINING ISSUES; ON THE BRITISH SIDE, IT WAS OPTIMISTICALLY FELT THAT CONTINUING FELT PRESSURE ON THE CHINESE SIDE DID IN FACT ASSURE SUBSTANTIAL LEVERAGE.

10. FOR IN FACT THE PLENARY SESSION AND WORKING GROUP NEGOTIATORS MUST COVER A LOT OF GROUND THIS MONTH AND NEXT, EVEN IF, AS MARGOLIS ASSERTS, THE PROBLEM REMAINING ARE OF A FAR DIFFERENT, LESSER MAGNITUDE THAN THOSE ALREADY OVERCOME. THE PUBLICLY ACKNOWLEDGED AREAS OF CONTINUING CONTENTION ARE:

-- LAND LEASES. AS A FORMER CHANCELLOR OF THE EXCHEQUER AND IMF VICE PRESIDENT, HOWE WAS HIGHLY EFFECTIVE, SAID MARGOLIS, IN ASSUAGING DENG'S PERSONAL PARANOIA THAT THE BRITISH WILL CONTINUE TO PEDDLE LARGE QUANTITIES OF VALUABLE LAND AND MILK THE HONG KONG TREASURY BEFORE THEIR FINAL DEPARTURE. HOWE PERSUASIVELY ASSURED DENG THAT HONG KONG'S FINANCES ARE AMONG THE

WORLD'S MOST PRUDENTLY MANAGED. THERE ARE TWO TYPES OF 75-YEAR LAND LEASES GENERALLY UTILIZED IN HONG KONG, INITIAL AND RENEWAL. WITH INITIAL LEASES, THERE IS A HIGH UP-FRONT PREMIUM AND LOW ANNUAL LAND RENT; THE BRITISH ARE HOPEFUL THAT CONTINUING PATIENT EXPOSITION OF HOW THESE PREMIUMS DEFRAY LAND FORMATION COSTS AND ARE RESPONSIBLY MANAGED IN A LONGTERM CAPITAL WORKS FUND WILL IN THE END PERSUADE BEIJING THAT THE PRESENT SYSTEM SUBSTANTIALLY PROVIDES THE ASSURANCES THE CHINESE REQUIRE. WITH RENEWAL LEASES, THERE IS NO UP-FRONT PREMIUM BUT THE ANNUAL LAND RENT IS 3 PER CENT OF THE PROPERTY'S
BT

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~~SECRET~~ SECTION 03 OF 04 HONG KONG 14772

EXDIS
NOFORN

E. O. 12356: DECL: OADR
TAGS : PGOV, PREL, CH, HK, UK
SUBJECT : FUTURE OF HONG KONG: DISCUSSION WITH HKG
RATED VALUE, SO THE DIVISION INTO PRE- AND POST-1997
REVENUES OCCURS NATURALLY PROVIDED THE CHINESE CAN BE
EDUCATED INTO A NON-PARANOID VIEW OF THE CAUSES OF
FLUCTUATION IN RATED VALUES.

- -- CIVIL AVIATION. THE BRITISH ARE STILL DISCOMFITED
BY CAAC'S "RAPACITY" AND BY THE LIKELIHOOD THAT CAAC,
BEING BOTH COMMERCIAL AIRLINE AND CIVIL AIR AUTHORITY,
WILL RENDER CIVIL AIR DECISIONS WHICH SERVE ITS COMMER-
CIAL INTERESTS. LONDON'S SOLUTION IS TO RETAIN HONG
KONG CIVAIR RIGHTS FOR THE HKSAR GOVERNMENT. MARGOLIS
DOES NOT YET GLIMPSE THE ULTIMATE COMPROMISE, BUT FORE-
SEES THAT IN THE IMPROVED POST-HOWE ATMOSPHERE THE
CHINESE WILL GET DOWN TO THEIR BOTTOM LINE WITH A SPEED
HITHERTO NOT POSSIBLE.

- -- NATIONALITY. MARGOLIS THINKS THE CHINESE WILL
ACCEPT THE BRITISH PROPOSAL FOR PARALLEL PRONOUNCEMENTS
(REFTEL), SPRUCED UP WITH SOME WINDOW DRESSING.

11. ASKED WHETHER DEFENSE AND CONSTITUTIONAL MATTERS ALSO
REMAINED TO BE ADDRESSED BY THE NEGOTIATORS, MARGOLIS
RESPONDED THAT:

- -- THEY WOULD PROBABLY HAVE TO MAKE ANOTHER PASS AT
DEFENSE QUESTIONS, WITH THE BRITISH PERHAPS REVAMPING THEIR
EARLIER PROPOSAL FOR A SEPARATE INTERNAL SECURITY FORCE
INTO A SIMPLE RECOMMENDATION THAT THE POLICE FORCE BE
APPROPRIATELY EXPANDED; AND

- -- SOME KIND OF BROAD UNDERSTANDING ON THE STRUCTURE
AND SELECTION OF THE POST-1997 GOVERNMENT WOULD BE
REQUIRED, THOUGH IT WAS HARD TO PREDICT THE FORM THIS
MIGHT TAKE SINCE THE COMPLEXITY OF THE SUBJECT PRECLUDED
AGREEMENT IN DETAIL. ONLY THE FLESHING OUT OF HONG KONG'S
BASIC LAW COULD PROVIDE THAT.

12. THE DRAFTING OF THE BASIC LAW REMAINS ENTIRELY IN
CHINESE HANDS, SAYS MARGOLIS. NOTWITHSTANDING THE

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EXDIS
IMPRESSION GAINED BY VARIOUS HONG KONG GROUPS VISITING BEIJING, THE CHINESE HAVE MADE ABSOLUTELY NO COMMITMENT TO INVOLVE HONG KONG PEOPLE IN THE ACTUAL DRAFTING PROCESS, THOUGH THEY HAVE OF COURSE REPEATEDLY STATED THEY WOULD WELCOME AND FACTOR IN HONG KONG VIEWS. AS THE PROVISIONS SURFACE, THE BRITISH ON THE JOINT TRANSITION COMMITTEE WILL BE IN A POSITION TO CALL TO CHINESE ATTENTION ANY FAILURE TO ACCORD WITH THE SINO-BRITISH AGREEMENT. THE CHINESE GIVE AN IMPRESSION THAT THEY ARE ALREADY WORKING ACTIVELY TOWARD DRAFTING THE LAW. EARLIER THEY SPOKE OF 1993 COMPLETION BUT NOW THE APPARENT TARGET IS 1989 OR EARLIER.

EXDIS
13. IN VIEW OF THE FOREIGN SECRETARY'S PRESS CONFERENCE STATEMENTS THAT ACTION ON THE AGREEMENT HAD TO BE TOTAL ACCEPTANCE OR TOTAL REJECTION, I ASKED MARGOLIS WHETHER THE HONG KONG OPINION-COLLECTING OPERATION BEING ORGANIZED BY IAN MACPHERSON WAS DESTINED TO BE NO MORE THAN A PUBLIC RELATIONS CHARADE. MARGOLIS CONCEDED THAT HOWE HAD BEEN TOTALLY HONEST ON THIS POINT, AND THAT ITEM-BY-ITEM REVISION WAS IMPOSSIBLE. HOWEVER, THE BRITISH FORESAW THE POSSIBILITY OF DOWNSTREAM ADDITIONS TO THE AGREEMENT, PERHAPS ARISING FROM INPUT FROM THE MACPHERSON EFFORT OR OTHER LOCAL SOURCES. THESE COULD TAKE THE FORM OF FUTURE SINO-BRITISH JOINT DECLARATIONS NOT FORMALLY INCORPORATED INTO THE PRESENT AGREEMENT. DELETIONS FROM OR MODIFICATIONS TO THE PRESENT AGREEMENT WERE LIKELY TO BE HARDER TO ACCOMPLISH THAN ADDITIONS TO IT.

EXDIS
14. THE CHINESE HAVE MADE NO COMMENT ON THE GREEN PAPER ON REPRESENTATIVE GOVERNMENT, UNLESS ONE CONSTRUES THE HONG KONG COMMUNIST NEWSPAPERS' STATEMENT THAT CHINA'S 50-YEAR POST-1997 GUARANTEE APPLIES ONLY TO THE "EXISTING SYSTEM" AS AN OBLIQUE WARNING AGAINST TOO-RAPID CHANGE. THUS THE PRIMARY PRESSURE FELT BY THE BRITISH IS FOR ACCELERATION, AND THE WHITE PAPER WHEN ISSUED THIS FALL MAY ACCORDINGLY PROVIDE FOR 3 DIRECTLY-ELECTED LEGCO MEMBERS, OR FOR THE QUICKER INSTITUTION OF AN INDIRECTLY-ELECTED MAJORITY IN LEGCO.

EXDIS
15. MARGOLIS FORESEES THE AGREEMENT'S INITIALLING IN SEPTEMBER, PARLIAMENTARY APPROVAL IN DECEMBER, AND FINAL RATIFICATION--CONTINGENT ON HOUSE OF COMMONS SCHEDULING--BT

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AMEMBASSY LONDON IMMEDIATE 5387

~~SECRET~~ SECTION 04 OF 04 HONG KONG 14772

EXDIS
NOFORN
E.O. 12356: DECL: OADR
TAGS : PGOV, PREL, CH, HK, UK
SUBJECT : FUTURE OF HONG KONG: DISCUSSION WITH HKG
IN ROUGHLY MARCH 1985. NOT UNTIL THAT POINT WOULD THE
JOINT TRANSITION COMMITTEE BE CONSTITUTED.

16. COMMENT. THE BRITISH ARE CLEARLY BUOYANT OVER THE
HOWE BREAKTHROUGHS AND FORESEE AN EASY APPROVAL BY A
RELIEVED PARLIAMENT. HONG KONG CHINESE OF MANY POLITICAL
STRISES ARE FREELY TELLING US THAT THE BRITISH HAVE
ACQUITTED THEMSELVES HONORABLY AND THAT THE AGREEMENT IS
THE BEST THAT COULD HAVE BEEN OBTAINED. AS TO WHETHER
THE DEGREE OF CONFIDENCE INDUCED IS SUFFICIENT FOR HONG
KONG'S ENTREPRENEURS TO RESUME LARGE SCALE LOCAL INVEST-
MINT, THAT IS A STORY WE WILL BE FOLLOWING IN THE YEAR
AHEAD. END COMMENT.
WILLIAMS
BT

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PAGE 01 BEIJING 4018
EOR235 AN001537

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CHINA IS NOW A MAJOR SPORTS POWER, AND I AM CERTAIN THAT THE NAMES OF CHINESE ATHLETES ARE GOING TO BE SEEN IN MORE AND MORE AREAS OF SPORT. WE HAVE ENJOYED HOSTING YOUR TEAM, AND AMERICAN ATHLETES HAVE ENJOYED MEETING AND COMPETING WITH YOUR ATHLETES. THEY LOOK FORWARD TO FURTHER CHANCES TO RENEW FRIENDSHIP AND TEST THEIR SKILLS AGAINST EACH OTHER. THE WHOLE WORLD IS ON NOTICE THAT AT THE 1988 OLYMPICS IN SEOUL, THERE ARE MANY SPORTS IN WHICH CHINA IS GOING TO BE THE "TEAM TO BEAT."
FREEMAN
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E.O. 12356: DECL: OADR
TAGS: PREL, SCUL, US, CH
SUBJECT: POSSIBLE PRESIDENTIAL MESSAGE TO CHINESE
OLYMPIC TEAM
REF: BEIJING 13715

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BY KML NARA DATE 6/21/12

1. (C) - ENTIRE TEXT.
2. THE LOS ANGELES OLYMPICS HAVE GENERATED INTENSE INTEREST AND PRIDE IN CHINA. CHINA'S EMERGENCE AS A MAJOR OLYMPIC COMPETITOR COUNTRY, AFTER DECADES OF NON-PARTICIPATION OR POOR SHOWINGS, IS BEING FOLLOWED BY CHINESE AT EVERY LEVEL, UP TO AND INCLUDING THE PREMIER. LAST WEEKEND'S VOLLEYBALL MATCH BETWEEN THE CHINESE AND AMERICAN WOMEN'S TEAMS WHICH WAS BROADCAST LIVE HERE, RESULTED IN UNUSUALLY QUIET AND EMPTY STREETS, AS EVERYONE WHO COULD DO SO TUNED IN THE GAME. EMBASSY OFFICERS WHO HAVE RAISED THE OLYMPICS IN CONVERSATIONS WITH MFA OFFICIALS HAVE BEEN STARTLED TO FIND THAT THE CHINESE NOT ONLY KNEW THE NAMES OF EACH OF THE MEDAL WINNERS, THEY ALSO KNEW THEIR EVENTS -- DOWN TO THE INDIVIDUAL WEIGHT CATEGORIES FOR WEIGHT LIFTERS.
3. IN THIS ATMOSPHERE SOVIET EFFORTS TO DEMIGRATE CHINESE ACHIEVEMENTS (REFTEL) HAVE BEEN DEEPLY RESENTED. ONE MFA OFFICIAL COMMENTED "THE SOVIET MORAL LEVEL IS UNBELIEVABLY LOW."
4. CHINESE HAVE BEEN GRATIFIED AT THE AMERICAN WELCOME AND PLEASED AT THE AMERICAN WILLINGNESS TO ACCEPT CHINA AS A MAJOR OLYMPIC COMPETITOR. EMBASSY WISHES TO SUGGEST THAT A HIGH-LEVEL MESSAGE TO THE CHINESE OLYMPIC TEAM BY THE PRESIDENT OR VICE PRESIDENT, DELIVERED ON THE DAY THE OLYMPICS CLOSE, WOULD UNDERSCORE OUR POSITION (AND ITS CONTRAST TO THE SOVIET TREATMENT), AND WOULD BE WELL RECEIVED HERE. AT THE SAME TIME, SUCH A MESSAGE COULD BE USED TO EXPRESS THE HOPE THAT WE WOULD SEE CHINA IN SEOUL IN 1988 -- SOMETHING THAT WOULD DEFINITELY PLEASE THE ROK.
5. IF SUCH A MESSAGE WERE SENT, WE WOULD SUGGEST SOMETHING ALONG THE FOLLOWING LINES: "DURING MY STAY IN CALIFORNIA I HAVE HAD SEVERAL OCCASIONS TO WATCH CHINESE ATHLETES COMPETING IN THE OLYMPICS. THEY HAVE TURNED IN SOME BRILLIANT PERFORMANCES -- LI NING'S THREE GOLD MEDALS IN GYMNASTICS IS ONLY ONE OF MANY EXAMPLES.

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E.O. 12356: N/A

TAGS: EINV, CH

SUBJECT: BILATERAL INVESTMENT TREATY: PRC PROPOSES
SEPTEMBER 17 - 21 FOR NEXT ROUND

1. EMBASSY RECEIVED CALL MONDAY AFTERNOON FROM THE
TREATIES AND LAW DIVISION OF THE MINISTRY OF FOREIGN
ECONOMIC RELATIONS TRADE. THE PRC NOW PROPOSES THAT
THE NEXT ROUND OF NEGOTIATIONS ON A BILATERAL INVEST-
MENT TREATY TAKE PLACE SEPTEMBER 17 - 21. THEY WOULD
LIKE TO KNOW IF THESE DATES ARE ACCEPTABLE TO THE US.

2. COMMENT: THE CHINESE HAVE CLEARLY SOUGHT TO AVOID
THE WEEK IMMEDIATELY PRIOR TO OR FOLLOWING THE OCTOBER
1 FESTIVITIES. THE ALTERNATIVE WOULD PROBABLY SLIP
INTO THE SECOND HALF OF OCTOBER. END COMMENT.

3. ACTION REQUEST: PLEASE LET US KNOW IF THESE DATES
ARE ACCEPTABLE. HUMMEL
BT

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PAGE 01
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UNCLAS HONG KONG 14863

E. O. 12356: N/A
TAGS: ETRD, US, HK
SUBJECT: TEXTILES: PUBLICATION OF NEW RULES OF ORIGIN
REF: A) STATE 225061 B) HONG KONG 14773

1. AS OUGHT TO BE OBVIOUS FROM REF B AND PREVIOUS, THE NEW REGULATIONS PUBLISHED AUGUST 3 ARE OF OVERRIDING CONCERN BOTH TO OUR HOST GOVERNMENTS HERE AND THE LOCAL TRADING AND MANUFACTURING COMMUNITIES. WE ARE BEING BESEIGED WITH REQUESTS FOR ACCURATE COPIES OF THE REGULATIONS, INCLUDING AN OFFICIAL REQUEST FROM THE MACAU GOVERNMENT, WHICH HAS NO OFFICE IN WASHINGTON AND MUST RELY ON US FOR RELIABLE INFORMATION ON WHAT THE USG IS DOING IN THIS AREA.

2. DESPITE REF A'S STATEMENT THAT QUOTE AS SOON AS A DEFINITIVE TEXT IS AVAILABLE, IT WILL BE CABLED TO ALL RELEVANT POSTS END QUOTE WE HAVE RECEIVED NO RPT NO COPY OF THE REGULATIONS PUBLISHED FOUR DAYS AGO. THE LAME GUIDANCE IN REF A IS ALL WE HAVE TO GO ON.

3. ACTION REQUESTED: PLEASE SEND US, AT THE LEAST, A COPY OF THE REGULATIONS BY IMMEDIATE CABLE. GUIDANCE AS TO THE USG VIEW OF WHAT THESE REGULATIONS ARE LIKELY TO MEAN FOR US/HK TRADE WOULD ALSO BE APPRECIATED.
WILLIAMS
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TO SECSTATE WASHDC IMMEDIATE 5241

UNCLAS HONG KONG 14989

E. O. 12356: N/A

TAGS: OREP, SNAR, HK

SUBJECT: STAFFDEL BRADY

REF: HONG KONG 13471

1. THE FOLLOWING AGENDA HAS BEEN ARRANGED FOR HONG KONG
PORTION OF STAFFDEL TRIP:

- TUESDAY, AUGUST 14

- 1315 - STAFFDEL WILL BE MET AT AIRPORT BY VICE
CONSUL MARGARET LONG.

- 1745 - WELCOME BY CONTROL OFFICER NANCY CHARLES,
HILTON HOTEL LOBBY, 2ND FLOOR

- WEDNESDAY, AUGUST 15

- 0905 - MEET CONTROL OFFICER CHARLES IN HILTON LOBBY,
2ND FLOOR.

- 0915 - COUNTRY TEAM BRIEFING, ACTING CONSUL GENERAL
WILLIAMS' OFFICE, CONSULATE 4TH FLOOR.

- 1030 - MEET WITH HONG KONG NARCOTICS, POLICE AND
CUSTOMS OFFICIALS, DEA CONFERENCE ROOM, ST. JOHN'S
BUILDING, 12TH FLOOR. (ACROSS GARDEN ROAD FROM THE
CONGEN)

2. PARTICIPANTS: ACTING COMMISSIONER FOR NARCOTICS ISAAC
CHOW; ACTING CHIEF, NARCOTICS BUREAU, ROYAL HONG KONG
POLICE, Y. P. TSANG; ACTING CHIEF, CUSTOMS INVESTIGATION
BUREAU, HONG KONG CUSTOMS AND EXCISE DEPARTMENT, K. L. MAK;
DEA SPECIAL AGENT IN CHARGE, ROBERT FUREY.

- 1400 - MEET WITH SR. U. S. CUSTOMS REPRESENTATIVE,
DONALD MIEGER, ST. JOHN'S BUILDING, 12TH FLOOR

- 1800 - COCKTAIL RECEPTION AT ACTING CONSUL GENERAL
WILLIAMS' HOME

- THURSDAY, AUGUST 16 - OPEN

- FRIDAY, AUGUST 17 -

- 1000 - PICK-UP BY GENERAL SERVICES STAFFER VICTOR
CHAN AT HILTON, GROUND FLOOR.

- WILLIAMS

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~~SECRET~~ LONDON 17962

EXDIS
E.O. 12356: DECL: OADR
TAGS: PREL, UK, HK, CH, XB, XE
SUBJECT: BRITISH VIEWS ON HONG KONG

1. SECRET - ENTIRE TEXT.
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2. HMG BELIEVES THAT THE INTERNATIONAL REACTION TO THE UK/PRC AGREEMENT ON HONG KONG WILL BE IMPORTANT IN SHAPING THE REACTION OF THE HONG KONGERS THEMSELVES. THE BRITISH WILL BE IN TOUCH WITH US TO ENCOURAGE POSITIVE US COMMENTS WHEN THE AGREEMENT IS INITIALLED IN SEPTEMBER. PERCY CRADDOCK, FORMER UK AMBASSADOR IN BEIJING AND NOW THATCHER'S FOREIGN POLICY ADVISER AND FCO SUPERVISOR OF THE HONG KONG NEGOTIATIONS, MADE THESE POINTS TO THE DCM AUGUST 8 DURING A DISCUSSION OF HONG KONG AND OTHER ISSUES.
--

3. CRADOCK WAS UPBEAT AND CONFIDENT REGARDING THE UK/PRC NEGOTIATIONS IN LIGHT OF THE BREAKTHROUGH DURING FOREIGN SECRETARY HOWE'S RECENT TRIP TO BEIJING. HE SAID THERE WAS NO DOUBT IN HIS MIND THAT THE CHINESE WOULD HAVE GONE AHEAD WITH A UNILATERAL STATEMENT ON THE FUTURE OF HONG KONG IN SEPTEMBER IF THE IMPASSE HAD CONTINUED IN THE NEGOTIATIONS. BRITISH INSISTENCE ON A DETAILED BASIC AGREEMENT HAD BEEN DIFFICULT FOR THE CHINESE TO SWALLOW, NOT ONLY AS A CONCEPT, BUT ALSO AS A PRACTICAL MATTER. THE CHINESE HAVE SHOWN CONSIDERABLE DISTASTE FOR THE TASK OF PLOWING THROUGH THE DETAILED LEGAL TEXTS THAT THE BRITISH HAD TABLED.
--

4. CRADOCK NOTED THAT IN BRITAIN THERE HAD NOT BEEN BROAD PUBLIC INTEREST IN THE HONG KONG NEGOTIATIONS. THE ONLY PRESSURE ON HMG HAD BEEN FROM A FEW RIGHT-WING TORIES WHO HAD EXPECTED THE GOVERNMENT TO FACE DOWN BEIJING. CRADOCK LAUGHED ABOUT THEIR GRASP OF THE RELATIVE POWER OF THE TWO SIDES.
--

5. THE FCO TELLS US THEY ANTICIPATE INITIALING OF THE AGREEMENT IN SEPTEMBER BY HEADS OF DELEGATION (POSSIBLY HOWE), CONSIDERATION BY HONG KONG IN OCTOBER

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AND NOVEMBER, PARLIAMENTARY DEBATE HERE IN LATE
NOVEMBER-DECEMBER, AND SIGNING IN DECEMBER.

6. ALSO ON AUGUST 8, THE PALACE ANNOUNCED THAT THE
QUEEN HAS BEEN INVITED TO VISIT CHINA. THE INVITATION
WAS CONVEYED TO THE FOREIGN SECRETARY, DURING HIS
RECENT VISIT, BY DENG XIAOPING. CHINESE PRIME MINISTER
ZHAO ZIYANG HAS BEEN INVITED TO VISIT BRITAIN NEXT YEAR.
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BY KML NARA DATE 6/21/12

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EXDIS

E. O. 12356:

DECL: OADR

TAGS:

PGOV, PREL, CH, HK, UK

SUBJECT:

FUTURE OF HONG KONG: WASHINGTON READOUT ON

HOWE VISIT

REFTEL: A) HONG KONG 14772, B) LONDON 16887

1. SECRET - ENTIRE TEXT.

2. SUMMARY: ON AUGUST 7 UK DCM DAVID HANNAY BRIEFED ASSISTANT SECRETARY PAUL WOLFOWITZ ON FOREIGN SECRETARY HOWE'S RECENT VISIT TO BEIJING. THE READOUT ADDED LITTLE SUBSTANTIVELY TO THE LONDON AND HONG KONG REPORTS (REFS A & B), BUT PROVIDED ADDITIONAL PERSPECTIVE ON WHAT LONDON FEELS WILL BE VIEWED IN RETROSPECT AS THE MEETING WHICH "BROKE THE BACK" OF THESE NEGOTIATIONS ON HONG KONG'S FUTURE. END SUMMARY.

3. UK DCM DAVID HANNAY CALLED ON PAUL WOLFOWITZ ON AUGUST 7 TO PROVIDE AN ADDITIONAL READOUT ON THE HOWE VISIT TO BEIJING. BRITISH FIRST SECRETARY STEPHEN GOMERSALL, EAP SPECIAL ASSISTANT GENE MARTIN AND EAP/C DESK OFFICER SAT IN. THE FORMAL READOUT FOLLOWED CLOSELY ALONG THE LINES OF REFTELS, THOUGH IT LACKED THE DEPTH AND DETAIL OF THE HONG KONG VERSION. HANNAY MADE REPEATED REFERENCE TO FOREIGN SECRETARY HOWE'S HONG KONG PRESS CONFERENCE TO ELABORATE ON BRITISH POSITIONS.

ATMOSPHERE: "BETTER THAN WE HAD FEARED"

4. THOUGH THE ATMOSPHERE AT THE START OF THE VISIT WAS "VERY DIFFICULT," WHEN THE BRITISH INDICATED THEIR WILLINGNESS TO COMPROMISE ON THE LOCATION OF THE JOINT LIAISON GROUP THE CHINESE MADE SIMILARLY CONCILIATORY MOVES. THE UK VIEW IS THAT THE CHINESE LEADERSHIP HAD REACHED A STAGE IN THEIR INTERNAL DELIBERATIONS WHICH MADE IT ATTRACTIVE FOR THEM TO PUSH FOR A BREAKTHROUGH, AND THEY IN FACT GAVE QUITE A BIT OF GROUND ON THE BINDING AND DETAILED NATURE OF THE AGREEMENT AND ITS ANNEXES AS WELL AS IN DEFINING THE LIMITED, LIAISON FUNCTION OF THE JOINT LIAISON GROUP. WHILE NEITHER SIDE

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NOW ANTICIPATES THE NEED FOR ANOTHER MINISTERIAL ROUND PRIOR TO SIGNING OF THE AGREEMENT, THE BRITISH SIDE REMAINS PREPARED TO HOLD ANOTHER SUCH MEETING IF IT BECOMES NECESSARY.

JOINT LIAISON GROUP - A COMPROMISE SOLUTION

5. HANNAY STRESSED THAT DELINEATION OF THE JOINT LIAISON GROUP INCLUDED DETAILS WHICH BOTH DEFINED AND LIMITED ITS FUNCTIONS AND ROLE. THE TWO SIDES AGREED TO ESTABLISH ITS LIAISON, CONSULTATION/IMPLEMENTING, -AND INFORMATION EXCHANGING FUNCTIONS, BUT LIMIT ITS ROLE BY SPECIFYING THAT THE GROUP WOULD HOLD NO ADMINISTRATIVE OR SUPERVISORY ROLE PRIOR TO 1997. THIS UNDERSTANDING WAS FORMALIZED IN THE STATEMENT ISSUED BY THE-CHINESE MFA FOLLOWING HOWE'S VISIT TO BEIJING. THE CHINESE MADE IT CLEAR THE JOINT AGREEMENT AND ITS ANNEXES WILL-BE STIPULATED IN THE BASIC LAW.

PROBLEM AREAS - MANAGEABLE

6. HANNAY STRESSED THAT THERE WERE STILL SEVERAL AREAS OF DISAGREEMENT, SPECIFICALLY MENTIONING CIVAIR, INDIVIDUAL RIGHTS, NATIONALITY AND LAND. HE CHARACTERIZED THE FIRST AND LAST OF THESE PROBLEM AREAS AS PREDOMINATELY COMMERCIAL/ECONOMIC, RATHER THAN POLITICAL. IN PARTICULAR, THE CIVAIR QUESTION CENTERS AROUND LONDON'S DESIRE TO OBTAIN ASSURANCES ON THE CONTINUED ROLE OF BRITISH AIR AND CATHAY PACIFIC IN THE HONG KONG MARKET, WITH TOUGH NEGOTIATIONS AHEAD. DESPITE MUCH WORK TO BE DONE IN THE NEXT SEVERAL WEEKS ON THESE ISSUES, HE STRESSED THAT HIS GOVERNMENT CONTINUES TO AIM TOWARD A SEPTEMBER AGREEMENT. RATIFICATION - END OF THE YEAR GOAL

7. THE AGREEMENT SHOULD BE READY FOR SUBMISSION TO PARLIAMENT BY THE END OF OCTOBER, WITH RATIFICATION EXPECTED BY DECEMBER. SIMULTANEOUSLY THE HKG WILL PROCEED TO GATHER OPINION FROM VARIOUS STRATA OF HONG KONG SOCIETY ON THE AGREEMENT. HANNAY UNDERScored HOWE'S ACKNOWLEDGEMENT IN THE HONG KONG PRESS CONFERENCE THAT - AMENDMENT OF THE AGREEMENT TEXT AFTER SEPTEMBER IS UNLIKELY. BUT HE DID SPECULATE THAT IT MIGHT BE POSSIBLE TO ADD PROVISIONS TO THE AGREEMENT IF THE NEED AROSE. GOMERSALL ADDED THAT THE JOINT LIAISON GROUP WOULD NO DOUBT APPLY ITSELF TO THIS QUESTION.

MISCELLANEOUS

8. FOLLOWING THE FORMAL BRIEFING, WOLFOWITZ RAISED SEVERAL QUESTIONS CONCERNING THE INTERNATIONALIZATION OF THE AGREEMENT, AND SPECIFICALLY-HONG-KONG'S FUTURE PLACE IN SUCH INTERNATIONAL ORGANIZATIONS AS THE GATT AND ADB. WHILE HANNAY DID NOT ANTICIPATE PROBLEMS WITH THIS, HE PROMISED TO OBTAIN FOR US FURTHER DETAILS ON THE BRITISH POSITION. WOLFOWITZ BRIEFED THE BRITISH ON FOREIGN MINISTER WU'S UPBEAT ASSESSMENT OF THE HOWE VISIT DURING HIS WEST COAST MEETING LAST WEEK WITH SECRETARY SHULTZ, AND ADDED HIS-PERSONAL VIEW THAT THE CHINESE NEEDED THIS AGREEMENT MORE THAN THEY SOMETIMES PUBLICLY ACKNOWLEDGED.

9. HANNAY ASKED IF WE HAD SEEN ANY REACTION FROM INTERESTED AMERICAN BUSINESS CIRCLES, AND; WAS TOLD IT WAS A BIT EARLY FOR US TO ASSESS THIS. HE WAS ALSO INTERESTED IN THE TAIWAN REACTION, WHICH WE SAW AS

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BASICALLY NEGATIVE IN THAT AN AGREEMENT ON -HONG KONG
BETWEEN THE UK & PRC WOULD UNDOUBTEDLY HAVE NEGATIVE
POLITICAL AND ECONOMIC RAMIFICATIONS FOR TAIPEI.

10. HANNAY AND WOLFOWITZ SHARED SOME THOUGHTS ON THE
KEMP RESOLUTION AND MANAGING CONGRESSIONAL INTEREST IN
THE HONG KONG ISSUE, HANNAY POINTING OUT THAT UNDUE
ATTENTION TO THIS QUESTION ON THE HILL THIS FALL WOULD BE
"UNHELPFUL." HANNAY HAS BEEN ACTIVE IN MEETING WITH
INFLUENTIAL MEMBERS OF THE HOUSE TO REPRESENT HIS
GOVERNMENT'S VIEWS. DAM
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BY KML NARA DATE 6/21/12

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~~SECRET~~ SECTION 01 OF 02 HONG KONG 15344

EXDIS
NOFORN

E. O. 12356: DECL: OADR
TAGS : PGOV, PREL, CH, HK, UK
SUBJECT : FUTURE OF HONG KONG: DISCUSSION WITH HKG
- ACTING POLAD

1. SECRET/EXDIS/NOFORN - ENTIRE TEXT

2. SUMMARY. ALTHOUGH THE ATMOSPHERE WAS LESS HEAVY THAN AT THE NEGOTIATING SESSIONS PRIOR TO THE HOWE VISIT, THE AUGUST 8-9 ROUND OF THE BEIJING NEGOTIATIONS ACHIEVED NO SUBSTANTIVE PROGRESS. IN SIMPLY REITERATING THEIR PREVIOUSLY-STATED PROPOSALS ON LAND LEASES, CIVIL AVIATION, AND NATIONALITY, THE TWO SIDES WERE EACH TRYING TO SEE WHETHER THE OTHER HAD YET BLINKED IN THE HOWE AFTERMATH. ON THESE THREE SUBJECTS, ASSISTANT POLAD MARGOLIS APPEARS SANGUINE THAT SATISFACTORY RESOLUTIONS WILL BE FOUND AS THE SEPTEMBER DEADLINE PRESSURE BUILDS OVER THE COMING WEEKS.

- LESS ASSURED IS THE FORMULA TO BE DEVISED REGARDING THE SELECTION OF HONG KONG'S POST-1997 GOVERNOR. LONDON AND BEIJING HAVE ACHIEVED NEAR-TOTAL AGREEMENT ON THE ANNEXES COVERING LEGISLATIVE AND JUDICIAL ARRANGEMENTS, BUT THE GAP WITH REGARD TO THE IEXECUTIVE REMAINS SUBSTANTIAL. THE BRITISH WANT IT WRITTEN IN THAT THE GOVERNOR AND HIS DEPUTY ARE TO BE CHOSEN IN ELECTIONS VOTED IN BY HONG KONG INHABITANTS IN ACCORDANCE WITH PROCEDURES APPROVED BY THE HONG KONG LEGISLATIVE AUTHORITY. THE CHINESE PROPOSE A BROADER FORMULATION TO THE EFFECT THAT THE PROCESS OF SELECTION WILL BE DETERMINED THROUGH CONSULTATIONS. END SUMMARY.

3. THE TWO SIDES' RIGID IMMOBILITY AT LAST WEEK'S ROUND 20 EVOKED FROM AMBASSADOR RICHARD EVANS THE COMMENT THAT IT WAS A RETURN TO TRENCH WARFARE IN THE NEGOTIATIONS. NEVERTHELESS, MARGOLIS OBSERVED, THIS TIME SMILES ABOUNDED AND NO ONE FELT THAT THE FAILURE TO PROGRESS WAS MORE THAN TEMPORARY. PASSING THROUGH HONG KONG AUGUST 14 THROUGH 16 EN ROUTE BACK FROM THEIR LONDON RECESS, THE BRITISH WORKING GROUP WILL REJOIN THEIR CHINESE COUNTERPARTS IN SESSIONS BEGINNING AUGUST 17. MARGOLIS EXPECTS THE 21ST PLENARY ROUND, SCHEDULED FOR AUG. 21-22, TO PROVE IMPORTANT.

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EXDIS
4. ON THE THREE SUBJECTS--LAND LEASES, CIVIL AVIATION, NATIONALITY--WHICH THE TWO SIDES PUBLICLY ACKNOWLEDGE STILL REQUIRE RESOLUTION, THERE WAS ONLY AN ARID REITERATION OF EARLIER POSITIONS. HOWEVER, MARGOLIS DOES FEEL THAT SOME OF ZHOU NAN'S SIDE COMMENTS INDICATED THE BEGINNING OF CHINESE ACCEPTANCE OF BRITISH ARGUMENTS THAT PRESENT INSTITUTIONAL AND FINANCIAL ARRANGEMENTS ON LAND LEASES ALREADY PROVIDE THE ESSENTIAL ASSURANCES BEIJING SEEKS.

EXDIS
5. DEFENSE WAS NOT RAISED THIS TIME AROUND. MARGOLIS NOTES A CONSENSUS AMONG HIS COLLEAGUES THAT AT THIS STAGE IT WOULD BE COUNTERPRODUCTIVE FOR THE BRITISH AGAIN TO RAISE THE QUESTION OF STATIONING THE PLA IN THE NEW TERRITORIES, SINCE--GIVEN DENG'S MAY OUTBURST ON THE SUBJECT--IT WOULD SIMPLY PROVOKE ADDITIONAL STIFF INSISTENCE ON CHINA'S SOVEREIGN RIGHTS. AT SOME FUTURE TIME, HOWEVER, THE BRITISH CONTEMPLATE SUGGESTING A PHASED INTRODUCTION OF ANY PLA PRESENCE, WITH A MINIMAL NUMBER OF TROOPS ACTUALLY ARRIVING ON JULY 1, 1997.

O SEPTEMBER

EXDIS
6. THE MOST SERIOUS REMAINING OBSTACLE TO SEPTEMBER AGREEMENT NOW APPEARS TO BE DIFFERENCES OVER THE LANGUAGE OF THE ANNEX ON THE EXECUTIVE BRANCH OF THE POST-1997 GOVERNMENT. MARGOLIS SAYS THAT THE LEGISLATIVE AND JUDICIAL ANNEXES, ALREADY 90 TO 95 PER CENT AGREED, PROVIDE A SATISFACTORILY HIGH DEGREE OF AUTONOMY TO THE HKSAR GOVERNMENT. THE BRITISH WOULD LIKE TO DO LIKEWISE FOR THE EXECUTIVE, BY HAVING THE ANNEX LANGUAGE

EXDIS
STIPULATE THAT THE GOVERNOR AND THE DEPUTY WOULD BE CHOSEN BY ELECTION OF HONG KONG INHABITANTS ALONG LINES APPROVED BY THE HKSAR LEGISLATIVE AUTHORITY. BEIJING BY CONTRAST ADVOCATES A LOOSER FORMULATION THAT SELECTION WOULD FOLLOW A PROCESS TO BE DEVELOPED THROUGH CONSULTATION. GOVERNOR YOUDE BELIEVES THE ONLY NEAR-TERM SOLUTION MAY LIE IN FUDGING OVER THE DISAGREEMENT WITH WORDS WHICH WOULD AS ADROITLY AS POSSIBLE ACKNOWLEDGE THAT A GAP EXISTS ON THE SUBJECT. BUT
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P 140902Z AUG 84
FM AMCONSUL HONG KONG

TO SECSTATE WASHDC PRIORITY 5323

INFO AMEMBASSY BEIJING PRIORITY 1363
AMEMBASSY LONDON PRIORITY 5413

~~SECRET~~ SECTION 02 OF 02 HONG KONG 15344

EXDIS
NOFORN
E. O. 12356: DECL: OADR
TAGS : PGOV, PREL, CH, HK, UK
SUBJECT : FUTURE OF HONG KONG: DISCUSSION WITH HKG
MARGOLIS CONTENDS THAT SUCH AN OMISSION WOULD BE SO
GLARING AS TO RISK SERIOUSLY DIMINISHING THE AGREE-
MENT'S POTENTIAL FOR STRENGTHENING CONFIDENCE IN HONG
KONG, AN ASSESSMENT WITH WHICH WE CONCUR.
WILLIAMS
BT

~~SECRET~~