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92706	CABLE	RE HONG KONG <i>D 12/20/2017 M299/1</i>	3	3/31/1983	B1 B3
92707	CABLE	132349Z MAY 83 <i>D 12/20/2017 M299/1</i>	1	5/13/1983	B1 B3
92708	CABLE	HONG KONG 09399 <i>R 6/21/2012 M299/1</i>	3	5/26/1983	B1

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92708

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~~SECRET~~ SECTION 01 OF 03 HONG KONG 09399

LIMDIS

NOFORN

E.O. 12356: DECL: OADR

TAGS: PGOV, PREL, UK, CH, HK

SUBJ: HONG KONG 1997: CURRENT PERSPECTIVES

REF: (A) LONDON 10369, (B) HONG KONG 9324 (AND PREVIOUS)

1. SECRET - ENTIRE TEXT

2. SUMMARY/INTRODUCTION

AFTER A NOTICEABLE UPTURN EARLIER THIS YEAR, THE MOOD IN HONG KONG IS AGAIN TURNING SOUR. IT'S DIFFICULT TO PINPOINT ANY SPECIFIC REASONS FOR THIS. PERHAPS IT'S THE PRODUCT OF A COMBINATION OF SEEMINGLY MINOR HAPPENINGS IN RECENT WEEKS, E.G., BEIJING'S ASSIGNMENT OF A RELATIVELY HIGH-POWERED PARTY OFFICIAL TO TAKE OVER THE DIRECTORSHIP OF NCNA WHICH IS BEING SPECULATIVELY READ BY SOME AS A SIGN OF THE PRC'S INTENTION TO WIELD A BIGGER STICK AND GREATER CONTROL HERE; A WIDELY REPORTED EFFORT BY SENIOR LOCAL CHINESE POLICE OFFICIALS TO OBTAIN RIGHT OF ENTRY INTO THE UK FOR CONTINGENCY PURPOSES; A SERIES OF DISAPPOINTING YEAR-END FINANCIAL REPORTS BY LOCALLY BASED MAJOR CORPORATIONS, AND THE RENEWED AND NOW SEEMINGLY RELENTLESS DECLINE IN THE VALUE OF THE HONG KONG DOLLAR, A FATE SHARED BY OTHER CURRENCIES, BUT HERE ACCELERATED AND AGGRAVATED BY UNCERTAINTY OVER THE FUTURE. THE GOVERNOR ASCRIBES THE RETURN OF GLOOM TO THE ABSENCE OF ANY SIGNS OF PROGRESS COMING OUT OF THE UK-PRC TALKS AND FEELS RATHER KEENLY THAT SOME GOOD NEWS MUST BE SERVED TO THE HONG KONG PEOPLE BEFORE 1984 IF IRREVERSIBLE DAMAGE IS TO BE AVOIDED (REFTEL B).

3. MOST EVERYBODY HERE SEEMS RESIGNED TO THE REVERSION TO CHINESE SOVEREIGNTY IN 1997. THERE IS ALSO GREATER WILLINGNESS TO CREDIT THE SINCERITY OF PRESENT PRC INTENTIONS TO HAVE HONG KONG PEOPLE RUN HONG KONG AND TO LEAVE THE FUNDAMENTAL UNDERPINNINGS UNCHANGED. THE RUB, HOWEVER, IS THAT THE PRC'S RECORD OF INSTABILITY

AND WILDLY GYRATING POLICIES GENERATES WIDESPREAD SKEPTICISM ABOUT THE DURABILITY OF THE PRC POSITION ONCE IT HAS HONG KONG UNDER ITS SOVEREIGN WING. IT IS THIS CONCERN WHICH PROMPTS THE UK EFFORT TO PRESERVE FOR IT A FORMAL POST-1997 ROLE, BUT SO FAR THE CHINESE AREN'T BUYING.

4. THERE HAVE BEEN SOME FAVORABLE STIRRINGS ON THE ECONOMIC SCENE -- EXPORTS ARE PROMISINGLY UP AND THE LOWER END OF THE REAL ESTATE MARKET HAS SHOWN SOME SIGNS OF REVIVING, ALTHOUGH THIS MAY BE NIPPED BY AN INCREASE IN THE LOCAL INTEREST RATE DECREED BY THE GOVERNMENT THE OTHER DAY IN A RESOUNDINGLY UNSUCCESSFUL ATTEMPT TO BOLSTER THE HONG KONG DOLLAR. CONTINUED AND SUBSTANTIAL ECONOMIC RECOVERY IN THE INDUSTRIALIZED NATIONS WOULD HELP AMELIORATE THE PREVAILING ECONOMIC DOLDRUMS, BUT WE DON'T SEE ANYTHING ON THE HORIZON WHICH WOULD EASE THE UNDERLYING CRISIS IN CONFIDENCE. THE HOPE HERE IS THAT HONG KONG'S LATEST ROUND OF SEVERE BLAHS WILL DRIVE HOME TO THE PRC THE FRAGILITY OF THE SITUATION AND LEAD IT TO A MORE FORTHCOMING, FLEXIBLE POSITION ON POST-1997 ARRANGEMENTS FOR THE TERRITORY.

END SUMMARY/INTRODUCTION

5. THE MOOD IN HONG KONG APPEARS TO BE DARKENING. THE SENSE OF RELIEF THAT HONG KONG HAS NOT COLLAPSED AFTER LAST FALL'S PANIC OVER THE THATCHER VISIT IS BEING SHOVED ASIDE BY A RESURGENCE OF WORRY OVER THE IMPLICATIONS OF CHINESE SOVEREIGNTY OVER HONG KONG. ALTHOUGH MOST PEOPLE NOW ARE RESIGNED TO THIS TAKING PLACE IN 1997, THERE IS A GROWING CONCERN OVER THE DEGREE OF BEIJING'S UNDERSTANDING OF THE SYSTEM AND OVER WHAT BEIJING'S FORMULA OF "HONG KONG RUN BY THE PEOPLE OF HONG KONG" WILL MEAN.

6. THIS UNCERTAINTY IS REFLECTED IN A CONTINUING ECONOMIC MALAISE. THE STOCK MARKET HAS LOST ITS BOUNCE AND THE EARLY-YEAR RECOVERY HAS NOW SLIPPED BACK TOWARD ITS POST-THATCHER-VISIT LEVELS. THE HONG KONG DOLLAR HAS BROKEN THE SYMBOLIC SEVEN-TO-ONE EXCHANGE RATE WITH THE U.S. DOLLAR DESPITE TWO SEPARATE BT

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NOFORN

E.O. 12356: DECL: OADR

TAGS: PGOV, PREL, UK, CH, HK

SUBJ: HONG KONG 1997: CURRENT PERSPECTIVES

INTERVENTIONS -- U.S. DOLLAR SALES BY THE HKG AND BANK ASSOCIATION FIXING OF HIGHER INTEREST RATES -- WHICH INITIALLY BROUGHT A SHORT RESPITE. THE RETURN TO THE SEVEN-TO-ONE LEVEL, A MERE TWO DAYS AFTER THE MOST RECENT HKG FIX, INDICATES HOW LITTLE CAN BE DONE TO ARREST THE DOWNTURN AT THIS TIME. MOREOVER, THE HIGHER INTEREST RATES THREATEN TO CUT OFF ANY HOPES FOR RECOVERY IN THE FLAT HOUSING MARKET AND HAMPER TURN-AROUND IN THE MANUFACTURING SECTOR.

7. ALL THIS UNCERTAINTY ABOUT THE FUTURE COMES ON TOP OF PERSISTENT FAILURE TO BRING OFF RESCUE ATTEMPTS FOR A NUMBER OF BANKING INSTITUTIONS -- THE VOLATILE DEPOSIT TAKING COMPANIES (DTC'S) AND LARGE PROPERTY CONGLOMERATES LIKE CARRIAN, TRAFALGAR, AND EDA. THE POOR PERFORMANCES LAST YEAR OF SUCH GIANTS AS JARDINES, HONG KONG LAND, WHELOCK MARDEN AND THE HONG KONG AND SHANGHAI BANK SCARCELY HELPED MATTERS AND MANY HAVE CONCLUDED THAT A NEGATIVE CAPITAL FLOW HAS RESUMED IN HONG KONG.

8. THE BRITISH, HOWEVER, HAVE NOT GIVEN UP THEIR STANCE THAT BRITAIN'S PRESENCE BEYOND 1997 IS BOTH NECESSARY TO MAINTAIN CONFIDENCE IN THE SURVIVAL OF HONG KONG'S PRESENT SYSTEM AND A POSSIBILITY TO BE OBTAINED IN THE NEGOTIATIONS. LONDON'S POSITION ON SOVEREIGNTY HAS ALSO NOT BUDGED DESPITE SOME SIGNS THAT SOME FLEXIBILITY MIGHT BE IN THE CARDS ONCE THE JUNE ELECTIONS ARE OVER IN THE UK. THIS HARD, STEADFAST POSITION HAS NOT HELPED BUILD LOCAL CONFIDENCE IN BRITISH LEADERSHIP. NEITHER HAS THE PERFORMANCE OF THE GOVERNOR -- AN OBVIOUSLY BRIGHT AND CAPABLE INDIVIDUAL -- WHO IS WIDELY PERCEIVED AS HAVING FAILED TO PROVIDE THE ENERGETIC AND INSPIRING LEADERSHIP DEMANDED BY THESE TROUBLESOME TIMES. A RARE EFFORT BY

THE GOVERNOR TO LIFT SPIRITS BY MEANS OF A TV INTERVIEW WAS COMPLETELY AND UNFLATTERINGLY OVERSHADOWED BY FAR GREATER ATTENTION TO THE VIEWS OF THE FORMER GOVERNOR, LORD MACLEHOSE, WHO IN A LONDON SPEECH PINPOINTED LOCAL FEARS -- LACK OF CONFIDENCE THAT CHINA WILL REMAIN UNINVOLVED IN HONG KONG AFFAIRS ONCE THE BRITISH ARE NO LONGER PRESENT.

9. BEIJING'S PROBLEM, THEREFORE, IS BROADER THAN SIMPLY REASSURING THE LOCAL POPULATION OF ITS COMMITMENT TO MAINTAINING THE STABILITY AND PROSPERITY OF HONG KONG. CHINESE PUBLIC STATEMENTS SINCE BEFORE THE BEGINNING OF THE YEAR HAVE FEATURED SUCH REASSURANCES. BUT PRC'S PAST RECORD OF INSTABILITY AND GYRATING POLICIES DOES NOT INSPIRE LOCAL CONFIDENCE IN THE DURABILITY OF WHAT MAY INDEED BE SINCERE INTENTIONS, AND WORDS ALONE AREN'T ENOUGH. PERHAPS SOMEWHERE DOWN THE LINE, THE CHINESE WILL ACCEPT A FORMULA IN SOME WAY LIMITING THE EXERCISE OF THEIR SOVEREIGN RIGHTS IN THE POST-1997 ERA, BUT SUCH A MAJOR CONCESSION IS NOT YET IN SIGHT.

10. THOUGH THE PRC IS CLEARLY ATTEMPTING TO REASSURE THE PEOPLE OF HONG KONG ABOUT THE FUTURE, THEIR EFFORTS HAVE NOT ALWAYS HAD THE INTENDED EFFECT. FOR EXAMPLE, BEIJING EMBARKED ON A BROAD, UNITED-FRONT CAMPAIGN TO ATTRACT SUPPORT AND SUCCESSFULLY ENTICED INTO MEMBERSHIP IN A NON-PARTY ADVISORY BODY SEVERAL LEADING HONG KONG BUSINESS AND COMMUNITY LEADERS WHO HERETOFORE HAD LITTLE TO DO WITH BEIJING'S OPERATIONS. WHILE MANY SAW THIS AS A POSITIVE STEP, AND THOSE WHO ACCEPTED THE APPOINTMENT EXPLAINED THEIR INTENT TO CONVEY BETTER THE VIEWS OF THE PEOPLE OF HONG KONG TO CHINESE LEADERS, SEVERAL CRITICISMS SUGGESTED THESE PEOPLE WERE BEING CO-OPTED BY THE PRC OR THEY WERE ONLY SEEKING COMMERCIAL BENEFIT. THE IMMINENT ARRIVAL OF A NEW, UNUSUALLY HIGH-RANKING PARTY CADRE AS XINHUA CHIEF -- THE PRC'S TOP POSITION IN HONG KONG -- IS ALSO LOOKED ON WITH MIXED EMOTIONS. ON THE ONE HAND, IT IS SEEN AS AN IMPROVED CHANNEL INTO THE CENTER OF CHINESE POLICYMAKING, WHILE ON THE OTHER, IT IS SEEN AS A MORE DIRECT EFFORT BY BEIJING TO ASSERT ITS AUTHORITY BT

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TAGS: PGOV, PREL, UK, CH, HK
SUBJ: HONG KONG 1997: CURRENT PERSPECTIVES
IN HONG KONG.

11. SIMILARLY, A RECENT GROUP OF IMPORTANT YOUNG BUSINESS AND UNOFFICIAL GOVERNMENT ADVISORS VENTURED TO BEIJING AND SPOKE FRANKLY WITH THE CHINESE ABOUT LOCAL UNCERTAINTIES OVER BEIJING'S FORMULA THAT HONG KONG RESIDENTS RULE HONG KONG FOLLOWING 1997. THEY EXPRESSED CONCERN THAT A SOCIALIST SYSTEM COULD NOT LONG TOLERATE A CAPITALIST SYSTEM UNDER ITS CONTROL. THEY CAME AWAY WITH MORE CHINESE PROMISES OF SENSITIVITY TO HONG KONG'S NEEDS BUT LITTLE ELSE IN THE WAY OF AN ANSWER TO THEIR QUESTIONS.

12. COMMENT:

SEVERAL SOURCES HAVE MENTIONED THE POSSIBILITY OF A FORTHCOMING SHOW OF BRITISH FLEXIBILITY TO BREAK THE LOGJAM IN THE TALKS. SO TOO WE HAVE HEARD OF CHINA'S INTENT TO REFINE FURTHER ITS VIEWS ON HONG KONG'S FUTURE DURING THE IMPENDING NATIONAL PEOPLE'S CONGRESS (NPC). IF THESE RUMORS PAN OUT IN A POSITIVE WAY, THEY MIGHT HELP ARREST THE PRESENT SLIDE AND RECOVERY OF TRADITIONAL MARKETS AND INCREASED DEMAND FOR FACTORY GOODS COULD ALSO HELP FOR A TIME. BUT NO MAJOR PSYCHOLOGICAL RESURGENCE IS LIKELY TO TAKE PLACE ABSENT SUBSTANTIAL INDICATIONS THAT THE BRITISH AND PRC ARE DRAWING CLOSER TOGETHER TOWARD AN AGREEMENT WHICH WOULD PROVIDE THE CONCRETE CONDITIONS SEEN HERE AS NECESSARY FOR HONG KONG'S CONTINUED PROSPERITY.

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