

**SECRET**

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FM HONG KONG 040820Z MAR 83  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 293 OF 4 MARCH  
INFO IMMEDIATE PEKING

YOUR TELEGRAM 187 OF 1 MARCH. THE FUTURE

IN ADVANCE OF MY VISIT IT MAY BE USEFUL FOR YOU TO HAVE AN ASSESSMENT OF THE SITUATION HERE AT THE PRESENT TIME. THE GENERAL ATMOSPHERE HAS BECOME CALMER. AS TIME GOES BY THE IMPACT MADE BY THE CHINESE PROPAGANDA CAMPAIGN HAS LESSENED: BECAUSE OF FAMILIARITY WITH ITS THEMES HONG KONG PEOPLE ARE DEVELOPING A DEGREE OF IMMUNITY TO IT. WE HAVE GOT THROUGH THE CHINESE NEW YEAR AND THE BUDGET REASONABLY WELL. UNDERSTANDABLY THERE IS STILL A GREAT DEAL OF INTEREST ABOUT THE FUTURE BUT THE CONCERN (IF NOT ACTUAL ALARM) WHICH WAS SO EVIDENT IN THE LAST QUARTER OF 1982 HAS GIVEN WAY TO AN INCREASING RECOGNITION THAT THE TALKS ARE GOING SLOWLY, IT WILL TAKE A LONG TIME TO RESOLVE THIS ISSUE AND THAT THERE WILL BE CHANGES. EVEN SO, IT IS STILL A VERY SENSITIVE ISSUE AND CONCERN IS ONLY JUST BELOW THE SURFACE. IT WILL BE REFUELLED BY FURTHER VISITS BY DELEGATIONS AND OTHERS TO CHINA, BY ANY PUBLIC MOVE BY THE CHINESE AND ALSO BY INDIVIDUAL EVENTS EVEN THOUGH THEY MAY NOT BE IMMEDIATELY CONNECTED WITH THE FUTURE. ANXIETY, OR WORSE, WOULD QUICKLY ARISE IF THERE WAS SOME UNEXPECTED DEVELOPMENT OR DISCLOSURE BY THE CHINESE.

2. THE BUDGET HAS GONE WELL AND THERE APPEARS TO BE MORE OPTIMISM ABOUT. A RECENT SURVEY OF 200 COMPANIES OF ORDERS ON HAND IN DECEMBER INDICATED A PICK UP IN BUSINESS AND THE POSSIBILITY THAT THE U.S. ECONOMY MAY BE BEGINNING TO MOVE UP AGAIN HAS HELPED. IMPORTS OF RAW MATERIALS INCREASED IN JANUARY COMPARED WITH A YEAR EARLIER. THE GENERAL CLIMATE HAS ALSO BEEN IMPROVED BY THE FACT THAT PROPERTY PRICES SEEM TO BE SETTLING. AGAINST THIS, UNEMPLOYMENT AND UNDER EMPLOYMENT HAVE RISEN SOMEWHAT IN RECENT MONTHS. FOR THE TIME BEING IT IS THESE FACTORS WHICH LOOM LARGE AMONGST THE ITEMS OF PUBLIC CONCERN.

3. PROBLEMS REMAIN WITH VARIOUS FINANCIAL INSTITUTIONS ESPECIALLY DTC'S AND, ALTHOUGH THE RESCUE OF CARRIAN HAS BEEN LARGELY DISCOUNTED, FURTHER CASES WILL UNDOUBTEDLY COME TO LIGHT WHICH WILL GIVE RISE TO CONCERN AND AFFECT CONFIDENCE.

4. STATISTICS OF THE GROWTH OF TOTAL DEPOSITS IN 1982 SUGGEST THERE WAS A SUBSTANTIAL INFLUX OF MONEY INTO HONG KONG, BUT INVESTMENT BY HONG KONG PEOPLE ABROAD HAS CONTINUED, POSSIBLY ON A LARGER SCALE THAN BEFORE. PARAGRAPHS 28-32 OF THE BUDGET SPEECH COPIES OF WHICH ARE ALREADY WITH YOU COVER THIS SUBJECT.

**SECRET**

/ 5. DESPITE



5. DESPITE THE PAUCITY OF STATISTICS THERE DO NOT APPEAR TO HAVE BEEN ANY SIGNIFICANT DEVELOPMENTS OVER EMIGRATION. UNDOUBTEDLY THOSE WHO HAVE THE QUALIFICATIONS WHICH WOULD SATISFY THE VISA REQUIREMENTS FOR RESIDENCE IN THE MORE IMPORTANT COUNTRIES (U.S., CANADA AND AUSTRALIA) ARE CONSIDERING THEIR LONG TERM FUTURE, BUT THE NUMBERS ARE NOT GREAT AND THOSE CONCERNED ARE SIMPLY LOOKING AHEAD. THERE REMAIN MANY WHO, DESPITE THE FACT THAT THEY MAY QUALIFY FOR EMIGRATION, ARE CONTENT TO WAIT AND SEE HOW THINGS DEVELOP.

6. NOT MUCH SHOULD BE READ INTO FLUCTUATIONS IN THE HANG SENG INDEX. THE INDEX IS A MEASURE OF ACTIVITY IN THE MARKET, BUT THE CAUSATIVE INFLUENCES, DOMESTIC AND EXTERNAL, VARY FROM DAY TO DAY (E.G. PROFIT TAKING BY LOCAL INVESTORS FOLLOWED BY THE FALL IN THE PRICE OF GOLD, PLUS RUMOURS ABOUT A PROPERTY COMPANY CALLED GREAT EAGLE, HAVE BROUGHT THE INDEX BACK TO ABOUT THE 1000 LEVEL.

7. THE MORALE AND SELF-ASSAURANCE OF UNOFFICIALS HAS IMPROVED NOTICEABLY SINCE IT HAS BEEN POSSIBLE TO TAKE UNOFFICIALS IN THE EXECUTIVE COUNCIL MORE INTO MY CONFIDENCE ABOUT THE FUTURE GENERALLY.

8. THERE ARE SOME SIGNS THAT BUSINESS AND PROFESSIONAL PEOPLE IN CONTACT WITH COMMUNIST ORGANISATIONS HERE, WITH VISITORS FROM CHINA AND ON THE OCCASION OF THEIR OWN VISITS TO CHINA ARE BEGINNING TO COMMENT TO THE CHINESE THAT THE PROPOSALS IN THEIR PLAN WHICH HAVE BEEN THE SUBJECT OF DISCLOSURE TO THE PRESS AND COMMENTED ON BY SOME LEADERS IN CHINA WILL NOT WORK. HOPEFULLY SOME OF THESE COMMENTS WILL REACH THE CHINESE LEADERSHIP. IN ANY CASE THIS IS AN ENCOURAGING AND WELCOME DEVELOPMENT. NONETHELESS THE FEELING IS FAIRLY WIDESPREAD THAT IT IS NOT GOING TO BE EASY TO CONVINCCE THE CHINESE ABOUT THE COMPLEXITY AND VOLITILITY OF HONG KONG'S ECONOMY AND SOCIETY: AND A NUMBER OF THINKING PEOPLE DO NOT SEE HOW THE BRITISH ARE GOING TO REACH AGREEMENT WITH THE CHINESE EXCEPT ON THE BASIS OF THE MAIN LINES OF THE CHINESE PROPOSALS.

YOUDE

FUTURE OF HONG KONG

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HD/FED  
HD/PLANNING STAFF  
HD/PUSD  
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