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DESKBY 061030Z

FM HONG KONG 060845Z DEC 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1887 OF 6 DECEMBER 1983

INFO IMMEDIATE PEKING

MR. CLIFT'S TELELETTER 040/11 OF 28 NOVEMBER.

MS

FUTURE OF HONG KONG: CONFIDENCE

THE FOLLOWING IS THE ASSESSMENT REQUESTED.

2. FOLLOWING THE MEASURES TO TAKE OVER THE HANG LUNG BANK AND TO STABILIZE THE EXCHANGE RATE OF THE HONG KONG DOLLAR, THE TONING DOWN OF CHINESE PROPAGANDA AND THE MORE HELPFUL COMMUNIQUES WHICH FOLLOWED THE FIFTH AND SIXTH ROUND OF TALKS, THE ATMOSPHERE HAS BECOME CALMER. THE PUBLIC TOOK THE OFFICIAL CHINESE ANNOUNCEMENT OF A SEPTEMBER 1984 DEADLINE IN ITS STRIDE (AND POSSIBLY WITH A GRAIN OF SALT) AND WAS NOT UNDULY WORRIED BY THE OCCASIONAL REMINDERS IN THE LEFT WING PRESS. HOWEVER, DEEP SEATED ANXIETIES REMAIN CLOSE TO THE SURFACE AS DOES WIDESPREAD SCEPTICISM ABOUT THE CHINESE PLANS FOR THE FUTURE. THIS IS COUPLED WITH A SENSE OF RELUCTANT RESIGNATION TO A CHINESE TAKE-OVER.

3. MIGRATION

THOSE WHO ARE IN A POSITION TO GO ARE CONTINUING TO EXPLORE OPPORTUNITIES FOR EMIGRATION OVERSEAS, PARTICULARLY TO THE USA, CANADA AND AUSTRALIA. THERE ARE MANY CIVIL SERVANTS IN THIS CATEGORY. ALTHOUGH ENQUIRIES ABOUT EMIGRATION TO THESE THREE COUNTRIES HAVE SHOWN AN UPTURN IN SEPTEMBER AND OCTOBER, THEY DID NOT REACH THE LEVELS OF A YEAR AGO. FOR AUSTRALIA APPLICATIONS ARE AVERAGING 340 THIS YEAR COMPARED WITH 180 IN 1982. FOR USA, AUSTRALIA AND CANADA VISAS GRANTED REMAINED CONSTANT AT ABOUT 4,000 A QUARTER (REFLECTING THE RESTRICTED QUOTAS).

4. SOME COUNTRIES CONTINUE TO OFFER RESIDENCE VISAS TO THOSE WITH MONEY TO INVEST. OTHERS APPEAR POPULAR PLACES FROM WHICH TO GET PASSPORTS OF CONVENIENCE. WE HAVE NO RELIABLE FIGURES OF ACTUAL DEPARTURES FOR THESE PLACES. INTERESTINGLY THERE WERE ONLY 8,400 APPLICATIONS RECEIVED FOR CERTIFICATES OF NO CRIMINAL CONVICTION TO SUPPORT VISA REQUESTS FOR THE LAST 5 MONTHS COMPARED WITH 9,600 FOR THE SAME PERIOD IN 1982: BUT THE 2,100 REQUESTS IN OCTOBER SHOWED A MARKED UPTURN.

5. DESPITE THESE STATISTICS THERE IS MUCH TALKS OF EMIGRATION ESPECIALLY AMONGST PROFESSIONAL PEOPLE. THAT IS TO SAY, THE VARIOUS OPTIONS INVOLVING SENDING CHILDREN OVERSEAS FOR EDUCATION, JOINING RELATIVES ALREADY IN OVERSEAS COUNTRIES ETC., ARE EXAMINED AND DISCUSSED IN GREAT DEPTH.

SECRET

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6. CIVIL SERVANTS.

SECRET

THE CIVIL SERVICE, ALTHOUGH OUTWARDLY CALM IS WATCHING DEVELOPMENTS CLOSELY. UNIONS HAVE SET UP STUDY GROUPS TO KEEP THEIR MEMBERS INFORMED. TO-DATE 166 APPLICATIONS FROM SERVING CIVIL SERVANTS FOR DISCRETIONARY REGISTRATION UNDER S4(5) OF THE BNA HAVE BEEN RECEIVED, BUT THE RATE AT WHICH APPLICATIONS ARE RECEIVED COULD ACCELERATE QUICKLY.

7. EXCHANGE RATES.

FOLLOWING THE INTRODUCTION OF THE NEW EXCHANGE RATE REGIME ON 17 OCTOBER, THE MARKET RATE HAS TRADED IN THE RANGE 7.78 TO 7.82 TO THE US DOLLAR. INTERBANK RATES HAVE FLUCTUATED WIDELY, BUT ON BALANCE HAVE BEEN LOWER THAN IMMEDIATELY BEFORE THE SCHEME WAS INTRODUCED. THE ASSOCIATION OF BANKS HAS THEREFORE BEEN ABLE TO REDUCE ITS BEST LENDING RATES BY 2 1/2 PER CENT. THE FACT THAT THE EXCHANGE RATE HAS STABILISED WITH INTEREST RATES BELOW EARLIER LEVELS INDICATES THAT THERE HAS BEEN LESS PRESSURE TO MOVE FUNDS OUT OF THE HONG KONG DOLLAR INTO OTHER CURRENCIES THAN BEFORE. THE GOVERNMENT'S ACTION IN FIXING A RATE AT WHICH CERTIFICATES OF INDEBTEDNESS ARE PRICED HAS DOUBTLESS REASSURED THE MARKET THAT THE EXCHANGE FUND'S RESOURCES ARE SUBSTANTIAL. BANKING FIGURES AND ANECDOTAL EVIDENCE ALSO LEND SUPPORT TO THIS VIEW. MOREOVER THE HONG KONG DOLLAR NO LONGER APPEARS AS A CURRENCY AGAINST WHICH SPECULATION MIGHT BE PROFITABLE.

8. STOCK MARKET.

DESPITE FAVOURABLE ECONOMIC INDICATORS INCLUDING A 37 PER CENT INCREASE IN DOMESTIC EXPORTS IN MONEY TERMS BETWEEN AUGUST AND OCTOBER A STABLE EXCHANGE RATE AND A FALL IN INTEREST RATES, ON THE ONE HAND, AND THE ABSENCE OF UNFAVOURABLE POLITICAL DEVELOPMENTS, ON THE OTHER, INVESTORS HAVE REMAINED ON THE SIDELINES, TURNOVER HAS BEEN LOW AND THE MARKETS HAVE MARKED TIME FOR TWO SUCCESSIVE MONTHS. AFTER REACHING A HIGH OF 896.53 ON 7 NOVEMBER, THE HANG SENG INDEX ENDED THE MONTH AT 852.9, DOWN 12 POINTS FROM OCTOBER'S CLOSE OF 865.33..

9. REGISTRATION/WINDING UP OF COMPANIES.

THERE HAVE BEEN NO SIGNIFICANT CHANGES IN THE MONTHLY AVERAGE OF 940 OF INCORPORATION OF LOCAL COMPANIES. FOREIGN COMPANY REGISTRATIONS ALSO REMAIN FAIRLY CONSTANT AT ABOUT 25 A MONTH. AT THE END OF OCTOBER THERE WERE 1244 APPLICATIONS FOR BANKRUPTCY OR THE WINDING UP OF COMPANIES OUTSTANDING. THIS REPRESENTS A 43 PER CENT INCREASE ON CASES OUTSTANDING AT THE END OF SEPTEMBER, 1982 BUT THERE IS A COMPLEX OF REASONS FOR THIS. THERE IS A GRADUAL MONTHLY BUILD UP.

- 2 -
SECRET

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10. INVESTMENT.

SECRET

THE PROPERTY MARKET HAS SHOWN NO SIGN OF REVIVAL. FOR 1983 AS A WHOLE, PRIVATE SECTOR EXPENDITURE ON BUILDING AND CONSTRUCTION IS FORECAST TO DECLINE BY 15 PER CENT IN REAL TERMS.

11. LITTLE INVESTMENT IN PLANT, MACHINERY AND EQUIPMENT IS TAKING PLACE AND THE LATEST FORECAST IS FOR ZERO GROWTH IN 1983. BUT THE BUOYANCY OF EXPORT DEMAND PRESENTLY BEING EXPERIENCED WILL ENCOURAGE MANUFACTURERS AT LEAST TO MAINTAIN ASSETS.

12. EMPLOYMENT.

UNEMPLOYMENT WAS 4.4 PER CENT IN THE SECOND QUARTER AND FELL TO 3.8 PER CENT IN THE THIRD. EMPLOYMENT IN THE CONSTRUCTION INDUSTRY FELL BY 12 PER CENT IN THE 12 MONTHS TO THE END OF SEPTEMBER.

13. PRESS AND OTHER INDICATORS OF PUBLIC OPINION.

YOU ALREADY RECEIVE DAILY AND FORTNIGHTLY SUMMARIES. EDITORIAL COMMENT AS WELL AS THE VIEWS OF INDIVIDUALS AND PRESSURE GROUPS INDICATE THAT THE WEIGHT OF CHINESE PROPAGANDA EFFORTS IS HAVING A CUMULATIVE EFFECT. MANY WHO KNOW THEY CANNOT INFLUENCE THE COURSE OF THE FUTURE ARE RESIGNED ABOUT IT EVEN IF THERE IS AN UNDERLYING MISTRUST OF CHINESE GUARANTEES. ALTHOUGH THE ATMOSPHERICS SURROUNDING THE TALKS HAVE IMPROVED, THIS HAS NOT RESULTED IN ANY MARKED INCREASE IN OPTIMISM REGARDING THEIR ULTIMATE OUTCOME. THE CHINESE HAVE CONTINUED TO HAMMER HOME THE MESSAGE THAT HONG KONG'S FUTURE CONSTITUTIONAL ARRANGEMENTS ARE NOT A MATTER FOR THE TALKS BUT A MATTER FOR CHINA TO DETERMINE IN CONSULTATION WITH THE PEOPLE OF HONG KONG.

14. AMONGST PROFESSIONAL PEOPLE, THERE ARE SOME (E.G. THE OBSERVERS) WHO NOW BELIEVE THAT SOMETHING WORKABLE COULD BE CREATED ON THE BASIS OF CHINESE PLANS. THERE ARE OTHERS, EG. THE YOUNG PROFESSIONALS AND SOME ACADEMICS WHO BELIEVE THAT WITHOUT LINKS OF AUTHORITY TO THE UK, THE CHINESE PLAN AS REPORTED WOULD NOT WORK. WE HAVE NO EVIDENCE TO INDICATE HOW THIS BALANCE HAS MOVED IN RECENT MONTHS THOUGH THE VIEWS OF THE FORMER MAY GAIN SOME SUPPORT IN THE NEXT FEW MONTHS.

15. THE TALKS.

LESS PUBLIC INTEREST WAS DISPLAYED IN THE LAST ROUND OF TALKS. THIS WAS IN PART DUE TO A CALMER ATMOSPHERE, BUT IS ALSO INDICATIVE OF A GROWING FEELING THAT AS THE CHINESE APPEAR TO BE DICTATING THE TERMS, THE TALKS ARE IRRELEVANT. THE FRUSTRATION AND ANXIETY WHICH THIS FEELING HAS ENGENDERED AMONGST INDEPENDENT MINDED PEOPLE TENDS TO MAKE THEM CONFUSE BRITAIN'S APPARENT INABILITY TO DELIVER SATISFACTORY ARRANGEMENTS WITH INSUFFICIENT DETERMINATION ON BRITAIN'S PART TO TRY. - 3 -

SECRET

SECRET

16. UNOFFICIALS ARE CRITICAL OF OUR RELUCTANCE TO REFUTE STATEMENTS BY LOCAL COMMUNIST SPOKESMEN SUGGESTING THAT BRITAIN HAS GIVEN UP SOVEREIGNTY AND ADMINISTRATION, ARE DISTURBED BY SUGGESTIONS OF MASS RESETTLEMENT AND ARE OCCASIONALLY DISPOSED TO SEE SUBSTANCE IN CHINESE ACCUSATIONS THAT BRITAIN'S INTEREST IN HONG KONG IS FINANCIAL.

17. FOR THE REST, THE ACTIVISTS WHOSE NAMES APPEAR IN THE PAPERS ARE NOT NECESSARILY REPRESENTATIVE. FOR EVERY PERSON WHO IS PREPARED TO BE QUOTED IN PUBLIC, THERE ARE MANY THOUSANDS WHO PREFER TO KEEP THEIR HEADS DOWN WHO ARE FEARFUL OF VICTIMISATION AND AWAIT THE OUTCOME OF THE TALKS WITHOUT ANY VERY GREAT EXPECTATION OF CLEAR SUCCESS. THE COMMENTATORS WHO ARE REGULARLY QUOTED ALL ACCEPT, AND IN SOME CASES EMBRACE, THE CHINESE PREMISE. THEY DO NOT ANALYSE THE PROBLEMS FACING HONG KONG VERY PROFOUNDLY. THE PEOPLE WHO COUNT TEND TO SHOW THEIR VIEWS BY WHAT THEY DO (EG. NOT REINVESTING, STAYING AS LIQUID AS POSSIBLE) RATHER THAN BY WHAT THEY SAY.

18. OPINION POLLS.

WE HAVE NOTHING FURTHER TO ADD TO THE INFORMATION CONTAINED IN DAVIES' LETTER S(GD) 4/02 OF 8 NOVEMBER TO MORRIS.

19. THERE HAS BEEN GROWING LOCAL INTEREST IN PQS, SUPPLEMENTARIES AND MEDIA REPORTS IN UK. WE ASSUME THAT YOU WILL MAKE AN ASSESSMENT OF THE APPARENT INCREASE IN INTEREST IN PARLIAMENT AND THE UK MEDIA ON THE FUTURE AND APPRISE US OF THE RESULTS.

HADDON-CAVE

FUTURE OF HONG KONG

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HD/PUSD

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-4-
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