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TO IMMEDIATE FCO
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UKMIS GENEVA

FUTURE OF HONG KONG: PRESS COVERAGE.

1. THE DECISION BY JARDINES TO MOVE THEIR HOLDING COMPANY TO BERMUDA WAS AGAIN THE DOMINANT STORY IN ALL SECTIONS OF THE PRESS. MOST PAPERS QUOTED AN FCO SPOKESMAN AS HAVING SAID THAT IT WAS A COMMERCIAL DECISION. THE SING PAO (INDEPENDENT) RAN A LENGTHY FRONT PAGE REPORT OF COMMENTS MADE BY UNOFFICIAL MEMBERS OF LEGCO DURING THE DEBATE ON THE BUDGET SPEECH. MOST OF THE MEMBERS REPORTED WERE CRITICAL OF THE DECISION AND SAID THAT IT INDICATED A LACK OF FAITH IN HONG KONG'S FUTURE. MR ALLEN LEE, HOWEVER, WAS QUOTED AS SAYING THAT IT WOULD BE UNWISE TO MAKE TOO EARLY A JUDGMENT ABOUT THE IMPACT OF JARDINE'S DECISION. MR ANDREW SO ALSO POINTED OUT THAT THE GOVERNMENT HAD NO POWER TO PREVENT OR CONTROL SUCH A DECISION. MR RONALD LI, CHAIRMAN OF THE FAR EAST STOCK EXCHANGE, WAS QUOTED BY A NUMBER OF THE PAPERS AS SAYING THAT HE WELCOMED THE MOVE SINCE IT MIGHT SERVE TO BRING TO THE CHINESE THAT THE HONG KONG BUSINESS COMMUNITY LACKED FAITH IN THEIR PROMISES. THE ECONOMIC JOURNAL (INDEPENDENT) IN ITS FRONT PAGE REPORT QUOTED ANALYSTS CLOSE TO JARDINES AS HAVING SAID THAT THE CHAIRMAN, MR SIMON KESWICK, HAD VISITED CHINA RECENTLY AND DISCUSSED HONG KONG'S FUTURE WITH CHINESE OFFICIALS. HE HAD NOT DISCLOSED THE COMPANY'S INTENTION TO TRANSFER ITS BASE TO BERMUDA. HE WOULD VISIT CHINA AGAIN IN THE NEAR FUTURE TO EXPLAIN THE BACKGROUND TO THE DECISION. MOST PAPERS ALSO CARRIED A BRIEF ACCOUNT OF REPORTS AND COMMENT ON THE JARDINE'S DECISION IN THE UK PRESS. ALL PAPERS ALSO REPORTED PROMINENTLY THE SHARP FALL IN SHARE PRICES ON HONG KONG STOCK EXCHANGE WITH THE HANG SENG INDEX FALLING BY 61 POINTS.

2. A NUMBER OF PAPERS QUOTED THE PRO-CHINA LAWYER, MISS DOROTHY LIU, AS HAVING SAID THAT CHINA ANTICIPATED THAT BRITISH CONSORTIA WOULD GRADUALLY PULL OUT FROM HONG KONG. THIS DECISION WOULD THEREFORE NOT BE A SURPRISE AND WOULD ONLY HAVE AN AFFECT ON THOSE PEOPLE WHO DELUDED THEMSELVES INTO BELIEVING THAT BRITISH CONSORTIA HAD INFLUENCE IN HONG KONG. A SPOKESMAN FOR THE HONG KONG AND SHANGHAI BANK WAS QUOTED BY MOST PAPERS AS SAYING THAT THE BANK HAD NO PLANS TO WITHDRAW FROM HONG KONG. THE FINANCIAL DAILY QUOTED THE CHAIRMAN OF THE ANGLO/HONG KONG PARLIAMENTARY GROUP, SIR PETER BLAKER, AS HAVING SAID THAT THE DECISION DID NOT MEAN THAT JARDINES WOULD CEASE TO OPERATE IN HONG KONG.

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3. 16 CHINESE LANGUAGE PAPERS AND BOTH MAJOR ENGLISH LANGUAGE PAPERS PUBLISHED COMMENT EITHER IN THEIR EDITORIALS OR COMMENTARIES. (FULL TRANSLATIONS OF A REPRESENTATIVE CROSS SECTION OF CHINESE LANGUAGE EDITORIALS FOLLOWS BY BAG TO HKD AND PEKING.) THERE HAS STILL BEEN NO EDITORIAL COMMENT IN EITHER OF THE TWO MAJOR COMMUNIST DAILIES, THE TA KUNG PAO AND WEN WEI PO. OTHER LEFT WING PAPERS HAVE GENERALLY REACTED WITH CAUTION. THE NEW EVENING POST IN ITS EDITORIAL ON 29 MARCH SAID THAT THE JARDINE'S DECISION WAS NOT IN HARMONY WITH PREVAILING TREND OF INCREASED BUSINESS CONFIDENCE AND IMPROVEMENTS IN THE ECONOMY. THE CHANGE OF REGISTRATION FOR THE HOLDING COMPANY DID NOT MEAN THE START OF A SERIES OF WITHDRAWALS FROM HONG KONG. AGAINST THE BACKGROUND OF THE EXCELLENT FRIENDSHIP BETWEEN BRITAIN AND CHINA, BRITISH COMPANIES IN RECENT YEARS HAD BROADENED THE BASE OF THEIR OPERATIONS IN HONG KONG.

4. THE TIN TIN DAILY NEWS (PRO-CHINA) SAID THAT THE PROSPERITY OF HONG KONG WOULD BE UNAFFECTED BY JARDINE'S DECISION SO LONG AS HONG KONG PEOPLE MADE EFFORTS TO FILL THE GAP. THE COMPANY'S DECISION WAS ANOTHER "ECONOMIC CARD" AIMED AT STRENGTHENING BRITAIN'S BARGAINING POSITION IN THE NEGOTIATIONS. IN A COMMENTARY ON ITS FINANCIAL PAGE, THE TA KUNG PAO, SAID THAT THE STOCK MARKET HAD BEEN GRAVELY AFFECTED BY JARDINE'S DECISION: A SHARP DROP IN JARDINE'S OWN SHARE PRICE SHOWED THAT MANY PEOPLE DISAPPROVED OF THE DECISION.

5. THE MING PAO (INDEPENDENT) SAID THAT SINCE JARDINE'S MAIN OPERATIONS WOULD REMAIN IN HONG KONG, THE DECISION WAS CLEARLY DESIGNED TO SHOW JARDINE'S DISSATISFACTION WITH CHINA'S POLICY TOWARDS HONG KONG AND THAT THEY DOUBTED WHETHER ANY AGREEMENT RESULTING FROM THE SINO/BRITISH TALKS COULD PRESERVE THE EXISTING LEGAL SYSTEM IN HONG KONG AFTER 1997. THE SING TAO JIH PAO TOOK A SIMILAR LINE: JARDINES DID NOT TRUST PEKING AND WAS PREPARING FOR THE WORST. THE DECISION HAD SHATTERED EFFERTS TO STABILISE CONFIDENCE IN HONG KONG. THE PAPER ATTACKED THE COMMENT BY THE FINANCIAL SECRETARY THAT THIS HAD BEEN A "COMMERCIAL DECISION" AND CALLED FOR A DETAILED EXPLANATION FROM THE HONG KONG GOVERNMENT. THE SING PAO (INDEPENDENT) ALSO INTERPRETED THE DECISION AS A VOTE OF NO CONFIDENCE IN CHINA'S SELF RULE PROPOSITION AND URGED BOTH THE CHINESE AND BRITISH GOVERNMENTS TO FIND A WAY OF MINIMISING THE REPERCUSSIONS OF JARDINE'S DECISION SO AS TO STOP A CHAIN REACTION. BRITAIN AND CHINA SHOULD ISSUE A JOINT STATEMENT ON THE INCIDENT. THE SUCCESS OF ANY JOINT REMEDY HINGED ON CHINA'S ABILITY TO TAKE A PRACTICAL ATTITUDE TOWARDS THE HONG KONG ISSUE. PEKING SHOULD CEASE TO BE SO EMOTIONAL AND FACE REALITY. THE ECONOMIC JOURNAL AND FINANCIAL DAILY (BOTH INDEPENDENT) AND THE EXPRESS (RIGHT-WING) ALL TOOK THE VIEW IN THEIR EDITORIALS THAT THE MOVE WAS UNTIMELY AND WOULD SERIOUSLY UNDERMINE PUBLIC CONFIDENCE.

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6. THE WAH KIU YAT PO (INDEPENDENT) TOOK THE VIEW THAT THE DECISION WOULD NOT HAVE A MAJOR EFFECT ON HONG KONG'S ECONOMY, BUT NEVERTHELESS EXPRESSED CONCERN ON THE POSSIBILITY OF A CHAIN REACTION. THE HONG KONG DAILY NEWS (INDEPENDENT) SUGGESTED THAT THE NUMBER OF FOREIGN FIRMS INVESTING IN HONG KONG WOULD OUTNUMBER THOSE WHO WITHDREW.

7. THE PRO-TAIWAN KUNG SHEUNG DAILY NEWS REPORTED IN ITS FRONT PAGE LEAD THAT THE SECRETARY OF STATE WOULD ANNOUNCE AN AGREEMENT IN PRINCIPLE BETWEEN CHINA AND BRITAIN DURING HIS FORTHCOMING VISIT TO HONG KONG. QUOTING UNSPECIFIED SOURCES, THE REPORT SAID THAT THE PRINCIPLES EMBODIED IN THE AGREEMENT WOULD INCLUDE THE GIVING UP BY BRITAIN OF SOVEREIGNTY AND RIGHT OF ADMINISTRATION OVER HONG KONG AND THE FORMATION OF THE JOINT COMMITTEE TO MANAGE THE TRANSFER OF ADMINISTRATIVE CONTROL IN ACCORDANCE WITH THE AGREEMENT. BRITAIN INTENDED TO GAIN THE SUPPORT OF EXCO BEFORE ANNOUNCING SUCH AN AGREEMENT, BUT ACCORDING TO THE SOURCES, EXCO MEMBERS WERE VERY UNHAPPY WITH THE ARRANGEMENT AND WOULD OPPOSE IT STRONGLY.

8. ALL PAPERS REPORTED ROUTINELY THE ANNOUNCEMENT BY THE FCO SPOKESMAN OF THE DETAILS OF THE SECRETARY OF STATE'S FAR EASTERN TOUR.

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FUTURE OF HONG KONG

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ED/EDD

ED/PLANNING STAFF

ED/FUSD

D/ED/FUSD

RES.B. (MR WALKER)

LEGAL ADVISER (SIR IAN SINCLAIR)

PS

PS/LADY YOUNG

PS/MR LUCE

PS/FUS

SIR J BULLARD

SIR W HARDING

MR WILSON

MR WRIGHT

SIR C TICKELL

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COPIES TO: (VIA ADR)

MR ROBERTS NEWS D

MR BURROWS LEGAL ADVS

MR COLES NO 10 DOWNING ST.

H.K.C.O. LONDON

MR MARTIN ASSESSMENT STAFF CABINET OFFICE

MR GOODALL CABINET OFFICE

MR BRENNAN CABINET OFFICE

PS/S OF S FOR DEFENCE D

PS/ATTORNEY GENERAL

SIR P CRADOCK RM K195

SIR P CRADOCK NO 10 DOWNING STREET

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PRIME MINISTER

HONG KONG: JARDINE MATHESON

You will recall that you were briefed earlier this week to the effect that the British Government had no prior knowledge of Jardine's move.

This is in fact true. But the FCO learned today that the Governor was told a week ago. He did not inform London and is very contrite about not having done so. This may be a sign that he is under great pressure.

The Chinese Communist Press are running the line, though not yet very strongly, that the British Government must of course have known in advance and perhaps help^{ed} to organise the move.

The press will be told if they raise this matter with us that it is not our practice to comment on confidential commercial exchanges and that we had no opportunity to influence Jardine's decision.

A.S.C.
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p. a.

A.S.C. 74.

30 March 1984