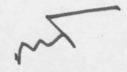
CONFIDENTIAL

FM HONG KONG 230850Z JUL 84

TO IMMEDIATE F C 0

TELEGRAM NUMBER 2087 OF 23 JULY
INFO PRIORITY PEKING



FOR GALSWORTHY, HKD.

OUR TELNO. 1849 : FUTURE OF HONG KONG : FORTNIGHTLY REPORT ON ...

MR. LUCE'S VISIT AND THE ANNOUNCEMENT THAT THE SECRETARY OF STATE
IS TO COME HERE AGAIN, HAVE CAUSED MOUNTING SPECULATION THAT THE
TALKS IN PEKING HAVE REACHED A CRITICAL STAGE.

- 2. AS A RESULT OF CHINESE LEAKS, THE HONG KONG MEDIA HAVE FOCUSSED ON THE POSSIBLE ESTABLISHMENT OF A JOINT LIAISON GROUP IN HONG KONG AS THE MAIN POINT CURRENTLY AT ISSUE. THE CHINESE HAVE PUT IT ABOUT THAT PEKING IS DETERMINED ON SUCH A GROUP, BUT THAT HONG KONG HAS NOTHING TO FEAR FROM IT. LI JUSHENG, A SENIOR NCNA OFFICIAL IN HONG KONG AND A MEMBER OF THE CHINESE NEGOTIATING TEAM, HAS SAID PUBLICLY THAT A JOINT LIAISON OFFICE WOULD BE NECESSARY AFTER AN AGREEMENT HAD BEEN SIGNED, BUT THAT IT WOULD NOT BE A WATCHDOG OR MONITORING BODY. LI'S REMARKS SEEM TO HAVE REASSURED SOME SECTIONS OF HONG KONG OPINION BUT THERE IS STILL STRONG DISTRUST OF CHINESE INTENTIONS AMONG KEY GROUPS.
- 3. THE SOUTH CHINA MORNING POST HAS ARGUED CONSISTENTLY THAT THE BRITISH SHOULD REJECT THE IDEA ON THE GROUNDS THAT ANY GROUP BASED IN HONG KONG WOULD INTERFERE WITH THE GOVERNMENT. MANY INDEPENDENT CHINESE LANGUAGE PAPERS HAVE, HOWEVER, CONCLUDED THAT A GROUP IN HONG KONG IS INEVITABLE, AND URGE SIMPLY THAT ITS TERMS OF REFERENCE SHOULD BE TIGHTLY DRAWN SO AS TO PREVENT IT INTERFERING WITH GOVERNMENT POLICIES. DISTRICT OFFICERS REPORT THAT MOST PEOPLE AT LOCAL LEVEL BELIEVE THAT A JOINT GROUP HERE WILL LEAD TO CHINESE INTERFERENCE AND HOPE THAT THE BRITISH GOVERNMENT WILL REJECT IT: BUT THAT SOME (MOSTLY YOUNGER PEOPLE) THINK A JOINT GROUP NEED NOT INTERFERE WITH ADMINISTRATION.
- 4. THE COMMERCIAL ATMOSPHERE DURING THE PAST FORTNIGHT HAS BEEN DOMINATED BY THE WEAKNESS OF THE HONG KONG DOLLAR, AND BY A FLUCTUATING STOCK MARKET. THE DOLLAR HAS FACED IS SEVEREST TEST SINCE IT WAS PEGGED TO THE US DOLLAR LAST SEPTEMBER, AND REMAINS UNDER SOME PRESSURE DESPITE A THREE AND A HALF PERCENT RISE IN INTEREST RATES. WHILE THE STRENGTH OF THE US DOLLAR IS CLEARLY A FACTOR IN THIS WEAKNESS, POLITICAL NERVOUSNESS IS ALSO RESPONSIBLE.

CONFIDENTIAL

/OPINION

CONFIDENTIAL

m

OPINION AT LOCAL LEVEL

5. REPORTS FROM DISTRICT OFFICERS AND OTHER GOVERNMENT SOURCES INDICATE INCREASING NERVOUSNESS. WHILE COMPARATIVELY FEW CONTACTS CLAIMED TO BE PLANNING EMIGRATION THEMSELVES, EVERYBODY KNEW PEOPLE WHO WERE DOING SO. THERE AS SIGNS THAT KMT SUPPORTERS AND LEFT-WINGERS ARE PREPARING FOR 1985 DISTRICT BOARD ELECTIONS AND THERE ARE NERVOUS PREDICTIONS OF INCREASING POLITICAL POLARISATION.

GREEN PAPER ON REPRESENTATIVE GOVERNMENT

6. FIRST REACTIONS WERE GENERALLY AS EXPRECTED. IT HAS BEEN BROADLY WELCOMED BY UNOFFICIALS, PROGESSIONAL GROUPS AND BUSINESS ORGANISATIONS, BUT CRITICISED AS INADEQUATE AND OVER-CAUTIOUS BY PRESSURE-GROUP PERSONALITIES.

ASSESSMENT OF VIEWS ON SINO-BRITISH AGREEMENT.

7. THE SECRETARY OF STATE'S ANNOUNCEMENT THAT A SPECIAL OFFICE WOULD BE SET UP IN HONG KONG TO COLLATE AND ASSESS VIEWS ON A SINO-BRITISH AGREEMENT HAS NOT YET BEEN FULLY DIGESTED. INITIAL INTEREST AMONGST A FEW PRESSURE GROUPS HAS CENTRED ON THE DECISION NOT TO HAVE A REFERENDUM. SOME HAVE EXPRESSED UNDERSTANDING OF THE DECISON, OTHERS HAVE CRITICISED IT.

BRAY

FUTURE OF HUNG KONG

LIMITED

HD/HKD
HD/FED
HD/PLANNING STAFF
HD/PUSD
DEP HD/PUSD
RESEARCH D (MR WALKER)
LEGAL ADVISERS(SIR J FREELAND)
PS/LADY YOUNG
PS/MR LUCE
PS/PUS
SIR W HARDING
SIR C TICKELL
MPS/CHANCELLOR OF THE EXCH
PS/LORD PRIVY SEAL
PS/SECRETARY FOR TRADE &
PS/SECRET

COPIES TO:BUCKINGHAM PALACE
PS/LORD PRESIDENT OF THE COUNCIL
PS/HOME SECRETARY
PS/CHANCELLOR OF THE EXCHEQUER
PS/LORD PRIVY SEAL
PS/SECRETARY FOR TRADE & INDUSTRY

COPIES TO:- (VIA ADR)
MR ROBERTS NEWS DEPT
MR BURROWS LEGAL ADVISERS
MR FIFOOT LEGAL ADVISERS
MR POWELL NO 10 DOWNING ST.
MR INGHAM NO 10 DOWNING ST.
MR MARTIN ASSESSMENTS STAFF CABINET OFFICE
MR CARTLEDGE CABINET OFFICE
MR BRENNAN CABINET OFFICE
PS/S OF S FOR DEFENCE
PS/ATTORNEY GENERAL
SIR P CRADOCK ROOM K195
SIR P CRADOCK NO 10 DOWNING ST.

CONFIDENTIAL