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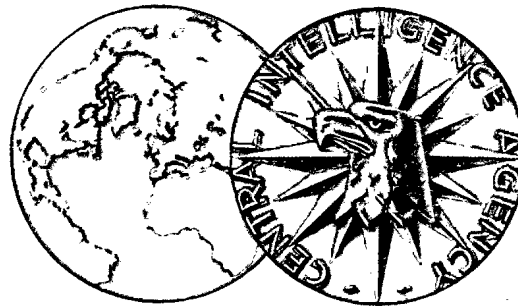
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FOR THE ASSISTANT DIRECTOR  
FOR REPORTS AND ESTIMATES

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# FACTORS AFFECTING THE STATUS OF HONG KONG (TO SEPTEMBER 1950)

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Published 4 October 1949

This document has been approved for release through the HISTORICAL REVIEW PROGRAM of the Central Intelligence Agency.

Date 21 Jul 92

HRP 92-9

Document No. 00  
 NO CHANGE in Class.   
 DECLASSIFIED  
 Class. CHANGED TO: TS S C  
 DDA Memo: Apr 77  
 Auth: DDA REG 77 1763  
 Date: 23/1/78 B: 023

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## FACTORS AFFECTING THE STATUS OF HONG KONG (TO SEPTEMBER 1950)

## SUMMARY

1. Before the end of 1949 it is expected that the Chinese Communists will have established effective control over the territory adjoining the British Crown Colony of Hong Kong.

2. Barring border incidents which could provoke a spontaneous attack, however, attempted invasion, at least before September 1950, seems improbable. In the case of an attack, the British have announced a determination to defend Hong Kong and are preparing for that eventuality.

3. At least until September 1950, Communist policy respecting Hong Kong is likely to be determined by balancing the factors impelling seizure of the territory against those impelling maintenance of the *status quo*. Among the principal factors impelling seizure are: (a) the pressure of Chinese nationalistic sentiment; (b) the damage such action would render British and, therefore, Western prestige in the Orient; (c) the elimination of Hong Kong as a Nationalist refuge; (d) the economic value of Hong Kong as the principal port in south China; and (e) the prestige which would accrue to Communist forces upon victory over the British. Among the factors impelling the maintenance of the *status quo* are: (a) the possibility of using Hong Kong as a bargaining point for international recognition and trade; (b) the problem of administration; (c) the economic benefits to be derived from a stable Hong Kong under British control; (d) the mili-

tary cost of an attack; and (e) possible Soviet opposition to a military assault.

4. British reaction to the Communist policy will be governed by a corresponding set of factors. Factors impelling the UK to maintain the *status quo* are: (a) the hope that a strongly defended Hong Kong will induce the Communists to negotiate a comprehensive settlement involving mutual economic and political concessions; (b) the loss of British prestige in Southeast Asia in the event of withdrawal; (c) Commonwealth concern over Hong Kong; (d) public opinion in the UK; and (e) Hong Kong's economic value to the British. Factors impelling UK withdrawal from Hong Kong area are: (a) the danger of the Colony becoming an economic liability if cut off from trade with mainland China; and (b) the growing belief that Hong Kong in the long run is militarily untenable.

5. After the Communists have established a national government in China, it is anticipated that they will initiate propaganda for rendition of Hong Kong. If the British demonstrate reluctance to recognize this government, or refuse to make available the economic facilities of Hong Kong, the Communists will probably take retaliatory measures. Up to at least September 1950, however, such retaliation is more likely to take the form of subversive activity than of armed attack.

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Note: The intelligence organizations of the Departments of State, Army, Navy, and the Air Force have concurred in this report. It is based on information available to CIA as of 26 September 1949.

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## FACTORS AFFECTING THE STATUS OF HONG KONG (TO SEPTEMBER 1950)

### 1. Impending Crisis Respecting the Status of Hong Kong.

Before the end of 1949 it is expected that Chinese Communists forces will have occupied Canton and will have established effective control over the area adjoining the British Crown Colony of Hong Kong. Meanwhile, British defenses for the Colony will have been strengthened substantially in line with strong British declarations that Hong Kong will be defended if attacked. Although the Chinese Communists to date have made no specific statement of their intentions regarding Hong Kong, they have publicly stressed their determination to exclude "all aggressive imperialist forces" from China. This determination, coupled with Chinese nationalistic sentiment favoring the rendition of Hong Kong, indicates that a Communist occupation of contiguous territory will jeopardize the British position in the Colony.

Threat of conflict between the UK and Communist China over Hong Kong becomes a matter of concern to the United States primarily because, in the event of a Communist armed attack on the Colony, the British are likely to invoke UN intervention and to anticipate US aid. With America's strongest ally thus threatened with a state of war or a serious loss of prestige, US interests in the Far East would be involved.

Communist action in regard to Hong Kong will also be of concern to the USSR, and is, therefore, not likely to be taken without previous consultations with the USSR. The Soviet attitude toward any form of action would, of course, be influenced by the existing international situation and by over-all Soviet policy.

### 2. Factors Governing Chinese Communist Policy for Hong Kong.

The Chinese Communists are determined to gain eventual control of Hong Kong. Whether they will attempt to achieve control immediately or undertake it as a long-term project; and whether they will seek to accomplish it

by military effort, by subversive action, or through negotiations probably will be governed by the following factors:

#### *a. Factors Impelling the CCP to Obtain an Early Rendition of Hong Kong.*

##### (1) *Political.*

(a) In accordance with the Chinese nationalistic tradition, the Communists regard Hong Kong as properly a part of China, alienated to the UK under the "unequal" treaties of cession of 1842 and 1860 and the lease treaty of 1898. Geographically and historically belonging to China and populated almost entirely by Chinese, Hong Kong, is considered an unredeemed area, which should be recovered by the revolutionary regime. Submitting to public pressure, the National Government, during the final stages of World War II, had initiated efforts to restore to China territories lost through "unequal" treaties; and, at the end of the war, took over the former French concession of Kuang-chou-wan.

(b) Recovery of Hong Kong by the Communists would be a blow to British "imperialism" and would further damage the prestige of the Western Powers throughout Asia. The CCP would gain support at home, and its prestige among the "anti-imperialist" peoples of Asia would be enhanced substantially. Early rendition of Hong Kong would constitute a valuable aid to the CCP in consolidating political control in China.

(c) Hong Kong has served as an important refuge for Chinese Nationalists, some of whom are on the Chinese Communist list of "war criminals." It would, therefore, be to Communist interest to prevent Hong Kong from becoming an anti-Communist base.

##### (2) *Economic.*

Hong Kong, with its excellent harbor, ample docking and storage facilities, shipbuilding and repair yards, and established commerce and trade, constitutes the principal port in south China. Its attractiveness has been greatly enhanced through measures taken by

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the British since 1945 to restore port facilities and industrial plants to prewar conditions.

(3) *Military.*

With the occupation of Canton and the coastal territory bordering on the British Colony, the Communists will have available overwhelming land forces which could be concentrated against Hong Kong. These forces, acting with or without the assistance of subversive elements in the Colony, would be able to capture Hong Kong eventually, although British defense efforts could be expected to make the action costly. An inspiration for military action against the British was supplied by the Communist success against British naval vessels on the Yangtze River in the early stages of the *Amethyst* affair. A successful military operation against Hong Kong would greatly enhance the prestige of the Communists and give them recognition as the dominant indigenous military power in the Far East.

*b. Factors Impelling the CCP to Maintain the Status Quo to September 1950.\**

(1) *Political.*

(a) After Communist establishment of a national government, the question of recognition will arise. Recognition from other than Soviet satellite states would be facilitated by Communist willingness to accept international obligations and to honor existing treaties. For this reason it would be to Communist interest not to violate existing treaties dealing with the status of Hong Kong.

(b) A CCP guarantee to maintain the *status quo* of Hong Kong could be used by the Communists as an attractive bargaining point to induce UK recognition and extension of commercial benefits.

(c) The Communists, suffering at present from a shortage of adequately trained administrative technicians, are encountering serious problems in large population centers now under their control. Consequently, it would be to their interest to defer occupation of Hong Kong until they were better prepared to meet

\* This date is used throughout in the sense of a one-year period, the maximum time for which the estimate herein concerning Hong Kong may be considered valid.

the administrative issues which would inevitably arise upon their seizure of the Colony.

(2) *Economic.*

Continued British control of an economically stable Hong Kong could have a salutary effect on the economy of south China. The interests of the Chinese Communists in maintaining and expanding the flow of industrial goods into China would discourage any measure calculated to interfere with shipments from Hong Kong. Particularly at this time, when the Nationalists have instituted a fairly effective "blockade" against shipments into China ports, the Communists may prefer to allow nearby Hong Kong to remain in British hands. As a British Colony, Hong Kong would be free from the Nationalist "blockade" and provide a convenient base for "blockade" running into mainland ports. Furthermore, the UK might be inclined to provide naval escort to China ports in the interest of continued trade relations.

(3) *Military.*

(a) To date, the Communist forces have adhered to a policy of carefully calculating the risk before entering upon a military operation. The Communist high command is aware of the fact that, although it possesses the military capability of capturing Hong Kong, such an operation would be extremely costly, both in men and material. Operations against Hong Kong would involve a large-scale engagement with a Western military power for the first time. Operations would not be limited to combat between land forces but would involve foreign naval and air arms as well.

(b) In view of possible implications, the Chinese Communists are not likely to undertake military operations against a major Western power without soliciting the views of the USSR. Rather than endorsing military operations, the USSR would probably encourage negotiations with the UK, since these might result in beneficial economic concessions which the USSR could not duplicate.

*c. Evaluation of the Chinese Communist Position.*

In calculating the probable effects of these factors on Communist policy it is necessary to distinguish between a short-range and a long-

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range policy. An evaluation of the factors governing Communist policy indicates that the Communists are determined to eliminate British control of Hong Kong but that the acquisition of this territory constitutes a long-range policy rather than an objective to be achieved before September 1950, and that the means to be employed will be diplomatic or subversive rather than military. Nevertheless, it is necessary to take into account the possibility of spontaneous, uncontrollable action as distinguished from an evolved policy. In the course of the past several years, Communist propaganda, through a continuous anti-foreign and anti-imperialist tirade has built up a reservoir of hate, especially among regular combat units, which could break on the slightest provocation. Such a development could readily result from a border incident incited by contact between Communist and British troops on the vulnerable frontiers of the New Territories.

Although the Communists will possess the military capability of seizing the British Colony after their conquest of south China, they are not likely to press for immediate military action against Hong Kong for the following reasons:

(1) Although the Communists probably do not regard international recognition *per se* as essential, they realize that defiance of accepted international practices would deprive them of certain benefits, chiefly economic, essential to the rehabilitation of China. Military action against Hong Kong certainly would blacken the already prejudiced case of the Communists in the minds of the Atlantic Pact nations which alone can supply essential capital equipment. It appears, therefore, that Hong Kong is likely to be used as a bargaining point for acquisition of these particular benefits and that any domestic complaint against failure to take military action will be rationalized through a propaganda campaign.

(2) Following the collapse of south China, Hong Kong will drop to negligible importance as a Nationalist haven, but may be used by the Nationalists as a base to smuggle arms to small resistance groups on the Continent.

(3) Hong Kong is at present China's most important export outlet. The proportion of

China's exports shipped through Hong Kong—about 15 percent before World War II—had risen to 31 percent by 1948. This percentage is furthermore based on official trade figures and takes no account of the large amount of unrecorded trade carried on by smugglers whose inclusion would increase the proportion shown.

Eventually, the Chinese Communists may succeed in establishing foreign contacts that will free them from reliance on Hong Kong as a transshipment center. For the immediate future, however, any curtailment of trade with Hong Kong would seriously reduce the foreign commerce of China. Such reduction in foreign commerce would not, it is true, effect the Chinese economy as adversely as it might that of Hong Kong. China is more nearly self-contained and therefore not so unconditionally dependent on foreign commerce as is Hong Kong. The Chinese Communists, nevertheless, place considerable importance on the necessity of maintaining exports at this time, to provide the means for foreign purchases of industrial goods. This interest in maintaining and expanding the level of exports will tend strongly to discourage interferences with the Hong Kong trade.

(4) The inability of the Communists to meet the perplexing problems of administering population centers, such as Shanghai and Tientsin, will probably discourage them from taking over Hong Kong before they are better prepared to cope with the issues which will arise. Although this factor apparently has had no effect on the Communist drive to capture such large south China cities as Canton, Changsha, and Foochow, these cities are Nationalist-held and are unavoidable objectives in the basic program of destroying Nationalist opposition, while the problem of administering Hong Kong can, for the moment, be avoided.

(5) Military action against Hong Kong would necessitate engaging ground, sea, and air forces of a calibre hitherto unencountered by Communist armies. The Communist high command is probably aware that its success against British naval units in the Yangtze River does not foretoken similar results against naval forces enjoying a greater free-

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dom of maneuver, and it is also probably aware that the sporadic attacks by Nationalist planes strafing at high altitudes constitutes no basis for estimating the effectiveness of seasoned British air units. The Communists, therefore, must realize that the cost of such an operation in men and material would be extremely high.

(6) The preponderance of Chinese in the population of Hong Kong renders the Colony extremely vulnerable to sabotage, strike, and boycott. The vulnerability to sabotage has been heightened by the population's large proportion of transients and recent immigrants who have no strong feeling of attachment to the colonial government. In the past year, the population of the Colony has increased by over 200,000 persons. All utilities in Hong Kong are manned and operated by Chinese personnel, with a minimum of British supervision. The power system, water system, and dockyards could cease to operate almost immediately if an organized anti-British movement began. British efforts to maintain internal security are endangered by the possibility of defection within the Hong Kong police force. With such potent weapons at their disposal, it appears that the Communists would employ military means to seize Hong Kong only as a last resort.

### 3. Pressures Governing British Policy for Hong Kong.

The main British desire in China is to preserve economic position and prestige through a *modus vivendi* with the Communists which would protect all British interests. Hong Kong itself is, in one sense, merely the focal point of this larger picture; but Hong Kong also has implications extending beyond the boundaries of China through the entire Far East. Excluding influences which the US may bring to bear, the main pressures molding British policy for Hong Kong may be summarized as follows:

#### a. Factors Impelling the UK to Maintain the Status Quo of Hong Kong in the Period Ending September 1950.

##### (1) Political.

(a) British chances of achieving fruitful results from comprehensive negotiations with

the Chinese Communists, would be greatly improved by the possession of a reasonably stable Hong Kong, strong enough militarily to withstand anything but the most determined and protracted siege, and economically able to offer obvious trading advantages to a China still dependent in part on imports from the West.

(b) Any sign of British weakness in Hong Kong would encourage further and more serious efforts on the part of the varied forces attacking the *status quo* throughout Southeast Asia and would undermine the elements working for stability. This would be particularly true in Malaya where the Chinese Communist guerrillas would be given a boost in morale at a time when government forces are keeping them increasingly on the defensive. It would create throughout the region the impression that the West is retreating before the new order in Asia, thereby causing a rush to support the Chinese Communists.

(c) Any apparent weakening of the British position in the Far East is a source of immediate concern to Australia and New Zealand which still rely (although to a much lesser degree than formerly) on British military and diplomatic support for their protection. They are particularly sensitive to any development threatening the Commonwealth lifeline. The three new Asian dominions, India, Pakistan, and Ceylon, are comparatively unconcerned about Hong Kong, but would, on the whole, probably prefer to see it remain for the present in British hands; British prestige in their eyes at any rate would not be increased by its rendition.

(d) As a result of the attacks in Parliament and in the press caused by the *Amethyst* incident, the Labor Government is particularly sensitive to any domestic criticism regarding the maintenance of the British flag.

In June 1949, indeed, the Defense Minister pledged his government to take measures to ensure the safety of Hong Kong. A decision not to go through with the defense of the Colony would leave the government open to Opposition charges that it was both presiding over the dissolution of the British Empire and violating a specific commitment—criticisms which, with a general election pending, the government is especially anxious to avoid.

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*(2) Economic.*

(a) The commercial importance of Hong Kong to the UK under normal conditions is considerable. Hong Kong is one of the world's great entrepôts, acting as a clearing house both for the south China trade and Far Eastern trade generally. Providing financial and allied services with a security unknown in most Far Eastern countries, the Colony, moreover, serves as the nerve center for the whole complex of British commercial operations in China.

(b) In the short run, Hong Kong is not economically vulnerable to Communist external pressures. Although the China trade is an important element in Hong Kong's long-range prosperity, statistics indicate that the Colony is not at present exclusively dependent on this trade. Only 18 percent of Hong Kong's exports were shipped to China in 1948, as compared with 45 percent before World War II. Imports from China have similarly declined in relative importance. To date, the ability of the Hong Kong merchants to find profitable markets and sources of supply in other countries, in the face of the increasingly severe Chinese restraints on commerce, suggests the limited effectiveness of possible embargo measures by the Chinese Communists.

It is pertinent to note also that Chinese embargo measures would not impair the Colony's food position seriously. Rice, the staple of the people's diet in the Colony, is already a prohibited export from the mainland, but the Colony has obtained adequate supplies from the smuggling trade, and from shipments from Burma, Thailand and French Indochina.

*(3) Military.*

Because of Hong Kong's vulnerability as an advanced military base in relation to the current and foreseeable capability of the UK to utilize and exploit it as such, it is not likely that purely military reasons will impel the British to retain it.

*b. Factors Impelling the UK to Withdraw from Hong Kong before September 1950.**(1) Political.*

There are no significant political factors impelling the UK to give up its present position in Hong Kong except as part of a long-

term understanding with the Chinese Communists. A mere unconditional withdrawal in the present circumstances would not make the attainment of such an understanding more likely.

*(2) Economic.*

(a) Hong Kong's trade with China, although relatively less important today than it was before World War II, still constitutes the largest component (approximately one-fifth) of the Colony's foreign commerce. Although an effective economic embargo applied by the Chinese Communists would not make the Colony immediately untenable, loss of Hong Kong's major trade outlet and source of supply would seriously reduce its economic importance to the British.

(b) The extensive British capital investments and commercial interests in China Proper are now mostly subject to Chinese Communist control. Concern about Communist action against these interests in China Proper and the desire to protect them might induce the British to reconsider their status in Hong Kong.

*(3) Military.*

(a) The capabilities of the Communist armies against efficient Western forces are still untested; but in assessing the possibilities of a direct attack on Hong Kong, the British must at any rate assume these armies to be large, fairly well equipped, and self-confident. The threat of a Communist military assault, therefore, is regarded by the British to be serious.

(b) The British are deeply concerned over the problem of internal security in Hong Kong because of Communist-controlled labor unions in public utilities and dockyards, the dubious loyalty of some of the police if ordered to advance against other Chinese, and the varied subversive potentialities of the dense Chinese population which has been further swelled by thousands of refugees, probably including many Communist agents.

*c. Evaluation of the British Position.*

In evaluating these varied pressures and their probable net effect on British action, an initial distinction must likewise be made between long-range and short-range policy. The British realize their inability, unsupported, to

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hold the Crown Colony of Hong Kong indefinitely in the face of serious rendition demands from a strong and united China. The situation likely to obtain between now and September 1950, however, is one in which the pressures impelling the British to hold Hong Kong tend to be maximized and the counter pressures minimized. Unless actually over-run by the Communists, for example, Hong Kong is unlikely to be so completely transformed economically within a year that the British will be prepared to write it off as a permanent economic liability. In the short run, therefore, unless a comprehensive settlement with the Chinese Communist regime is reached, the only thing likely to bring about a British withdrawal from Hong Kong is sheer military necessity.

From the publicity it has given its measures to defend Hong Kong, the UK evidently anticipates no such necessity. A tentative survey of British capabilities to resist both internal and external threats gives grounds for confidence in their ability to maintain control during a local emergency of limited duration. British capabilities may be estimated as follows:

(1) *Ground.*

A limiting factor governing the further reinforcement of ground forces in Hong Kong is the availability of combat-ready British units. When the troops now committed have arrived, the British Army will have virtually no strategic reserve. The nearest combat troops are those in Malaya, where reduction of garrisons would be undertaken with the greatest misgiving. No definite commitments of ground forces from the Dominions have been made as yet, although some Australian and New Zealand units may be available as reserves. Further reductions in the Middle East area would be possible only if political as well as military risks ensuing from such reductions were accepted. Reinforcement from units now in continental Europe would probably be a last resort, while further reinforcement from troops in the UK would consist largely of untrained and inexperienced personnel.

(2) *Sea.*

With the possible exception of carriers, the Navy can supply all needed warships for direct troop support without any strain on other com-

mitments. The British Merchant Marine can undertake the logistic effort needed to maintain land and air forces committed in combat. However, some stockpiling in advance of anticipated combat operations would be necessary, but this is well within the potential capabilities of the Merchant Marine and is undoubtedly being undertaken.

(3) *Air.*

The employment of even the relatively small numbers of RAF units which can operate from Kaitak, the single airfield existing on the mainland at present, places a strain on operational commitments of the RAF in other theaters. Another factor governing the employment of land-based aircraft in Hong Kong is not, of course, Communist aircraft potential but the limited capacity of Kaitak. This limitation can be offset in part, however, by use of available carrier-based aircraft which, in view of limited Communist air potential, could be effective in many types of operations.

(4) *Police.*

The threat of internal security is regarded by the British as more immediate than that of a major external attack, and defense planning in general assumes both threats to be parts of the same problem. For example, military maneuvers conducted last spring against a hypothetical attack on the New Territories assumed a concurrent rising in the cities and included steps for dealing with the latter situation. Measures for reducing internal tensions under siege conditions—such as the provision of a three-months' emergency rice supply—have recently been undertaken. The regular police force of less than 3,000 men is larger than it was before the war; but efforts to augment it with special police for emergency duty have been seriously slowed by wholesale leftist attempts to join up themselves, thus necessitating elaborate screening of all Chinese recruits. The Hong Kong Government has, however, an efficient counter-intelligence organization, built up over a long period, and emergency regulations are already drawn for the summary imprisonment of any persons regarded by the government as subversive. It is not known how effectively these various measures would cope with an internal rising concerted with external threats.

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(5) *General.*

In any final assessment of British military capabilities in Hong Kong, it must be remembered that the British have no inclination to seek a purely military solution themselves but merely to prevent the Communists from doing so. The immediate purpose of the well-publicized reinforcements is to announce to the Communists that the UK will not be bluffed out of Hong Kong; but at no time have the British implied that, given suitable opportunity, they would be unwilling to discuss the whole question of Anglo-Chinese relations. Negotiations under favorable terms seem, indeed, to be the main end of Britain's present Hong Kong policy. The evident UK conviction is that in such negotiations the unqualified demand for rendition would necessarily go by the board, and the Chinese irredentism would be subordinated to a calculating self-interest by the prospect of a Hong Kong profitable to do business with but costly to take by force.

4. *Conclusions.*

It appears that between the present and September 1950, barring incidents which could provoke conflict between Communists and

British frontier forces, conditions minimize the chance of a Communist attack against Hong Kong. It is believed that during the next year the Communists will increase their anti-British propaganda and will institute pressure for the rendition of Hong Kong, which, to date, they have not done either by diplomacy or by propaganda. Anti-British agitation inspired partly by the escape of the *Amethyst* from the Yangtze River has already been observed in Shanghai. The Communist high command, however, is likely to keep close watch on forces occupying the Hong Kong border area in order to avoid incidents. The British, for their part, will continue to strengthen Hong Kong's defenses.

When the question of international recognition arises, the status of Hong Kong probably will come up for review between the Chinese Government and the UK. If the UK demonstrates reluctance to recognize the new administration or to make available the economic facilities of Hong Kong, the Communists are likely to order Hong Kong's saboteurs and agitators into action. It is improbable, however, that the Chinese Communists will set their armed forces into motion against Hong Kong before September 1950.

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