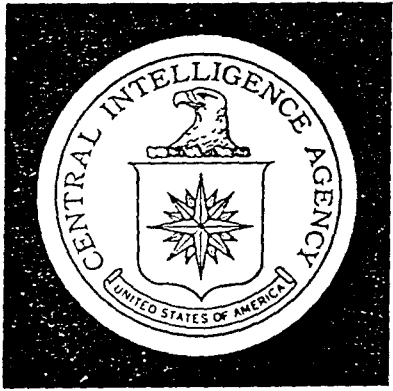


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DIRECTORATE OF  
INTELLIGENCE

# Intelligence Memorandum

*The Situation in Hong Kong*

~~Secret~~  
11 July 1967  
No. 1366/67

APPROVED FOR RELEASE  
23 DEC 1996

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CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence  
11 July 1967

INTELLIGENCE MEMORANDUM

The Situation in Hong Kong

Summary

The border clash on 8 July during which five policemen were killed in an exchange of small arms fire with Communist militia makes it clear that the Chinese authorities intend to keep the Hong Kong issue hot. Peking's official treatment of the incident thus far, however, does not indicate that the Chinese Communists are aiming for a showdown with the British at this time. There will probably be more trouble during the weeks ahead. Riots and violent demonstrations inside the Colony appear almost certain and there may be additional border incidents. Given the state of confusion within the Chinese Communist leadership and the pressures generated in the capital, at the provincial level, and within the Communist apparatus in Hong Kong by the latest phase of the "cultural revolution," these could get out of hand and escalate into a direct confrontation over the status of the Colony. The pattern of events during the past several months suggests, however, that Peking is operating on a longer range plan calculated to erode the position of the Hong Kong authorities and thus prepare the ground for an effort by the local Communist apparatus to assume de facto control over Hong Kong in a year or so--on the pattern of the Macao takeover last winter. The resolute stand taken thus far by the British, the demonstrated effectiveness of control measures adopted by the Hong

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Kong authorities, and the lack of "revolutionary" enthusiasm shown by the general population in the Colony, seem unlikely to encourage Peking to move more quickly. The Chinese Communists can be expected to continue--and perhaps to increase--their support of local opposition in Hong Kong but probably will refrain from actions involving the risk of war, or even moves which would disrupt the Colony to such an extent that Peking was denied the vital foreign exchange earned there--approximately one third of China's total earnings in 1966.

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Background

1. The present troubles in Hong Kong can be traced back to a shift in Communist tactics with respect to the Colony which apparently was adopted around the beginning of this year. Prior to that time the Communist apparatus in Hong Kong had been relatively circumspect. Instructions issued in January 1967 by a senior official who had returned from a visit to China the preceding month changed this line. He ordered increased exploitation of industrial disputes in order to indoctrinate the workers with "Maoist thought" and stated specifically that the objective of the new program was to further the "anti-British struggle."

2. There was an increase in industrial unrest during the late winter and early spring, but the British authorities sought to avoid trouble by standing clear of the disputes and leaving them to be settled by labor-management bargaining. On 6 May, however, violence broke out during a factory strike which required police intervention. The Communist press--first in Hong Kong and then on the mainland--reacted with charges that the Hong Kong Government had committed "atrocities" and demanded that those responsible be punished.

3. The initial propaganda attack was followed by three days of Communist-inspired rioting which began on 11 May. On 15 May Peking took formal cognizance of the situation by delivering a Foreign Ministry statement to the British chargé demanding that workers arrested in Hong Kong be released, that those responsible for the arrests be punished, that apologies and compensation be offered, and that a guarantee be provided against any similar incident in the future. A campaign of harassment against British diplomatic personnel in China began at this time. Massive demonstrations were staged outside the British Embassy. The British Consulate in Shanghai was forced to close and the officers there were roughly handled by Red Guard hoodlums.

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#### The Initiative for the Disorders

4. It is still not clear whether the strike violence on 6 May and the ensuing riots in the Colony were the result of local Communist initiative or were specifically ordered by Peking. The nine-day delay between the incident on 6 May and the Foreign Ministry statement on 15 May suggests, however, that the campaign originated in Hong Kong. The leaders of the local apparatus almost certainly felt under considerable pressure to demonstrate their militancy--in view of the current demands of the "cultural revolution"--and may have decided that the time was ripe to launch a major campaign based on what appear to have been very general instructions to take a harder line in exploiting labor unrest.

5. It is possible that the local leaders overestimated their own capabilities, underestimated the ability of the British to resist pressure, and presented an optimistic picture to Peking which secured official endorsement and direct involvement of the Chinese Communist regime in support of their plans. Foreign Ministry officials in the capital had been under heavy extremist pressure for months and might therefore have been inclined to put "politics in command" over their normal caution.

#### The British Reaction and its Effects

6. Undoubtedly encouraged by the Foreign Ministry statement, the Hong Kong apparatus launched a series of "Red Guard" type demonstrations and encouraged strikes designed to cripple public services and promote mass disorder. The Hong Kong Government was operating on the assumption that Peking did not intend to seize the Colony and that in this situation it had much to gain and little to lose by refusing to give an inch. London refused to reply to the Chinese Foreign Ministry demands and issued a statement supporting the Hong Kong authorities. The Hong Kong police stood firm and generally were able to maintain order while employing a minimum of force.

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7. Failure of the efforts of local Communists to intimidate the British began to sap their morale and a number of them expressed disappointment over the support they were receiving from Peking. [REDACTED] on 23 May a number of senior officials in the Hong Kong apparatus revealed growing discouragement. They attributed the resolute stand taken by the British to a "reasonable" judgment that China did not wish to take over Hong Kong at that time. They were reported to believe that Peking did not entirely agree with efforts by the local apparatus to "escalate" the confrontation and privately admitted that the British were following a clever policy in suppressing the demonstrations without creating a host of martyrs--in contrast to the mistakes made by the Portuguese in Macao.

1.5(c)(d)  
3.4(b)(1)(6)

8. By the end of May the Colony had returned to relative calm despite sporadic harassment strikes inspired by the Communists and financed in part by Peking through front organizations. Communist officials in Hong Kong began at this point to say that the struggle against the British could take as long as two years. This situation continued throughout most of June. A "general strike" was called on 24 June

[REDACTED]  
the effort had been a failure. [REDACTED]

1.5(c)(d)  
3.4(b)(1)(6)

[REDACTED] the call for a general strike had been "wishful thinking" because "the masses were difficult to mobilize."

#### Peking's Actions

9. Communist China made a number of gestures in support of the Hong Kong Communists at this time, but they were little more than token encouragement. On 25 June, the day following the abortive general strike, Peking halted deliveries of water to Hong Kong. This was clearly intended to harass the British and to remind them of their dependence on mainland water supplies. The Chinese took this step only after they had delivered all the water they had contracted to supply under the existing agreement, however, and at a time of year when the water situation

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in the Colony is normally not critical. Peking is not obligated to sell more water to Hong Kong until October and has ignored a British request--probably designed to probe Chinese intentions--for additional supplies at this time.

10. On 26 June the British chargé was summoned to the Foreign Ministry and given a note protesting alleged overflights of Chinese territory and charging the British with "bloody persecution" in suppressing the Hong Kong general strike. The Chinese note once again called for immediate fulfillment of the demands made on 15 May but contained no time limit for compliance. The chargé reported that his meeting with the Foreign Ministry official was conducted in "very low key," and commented that the note appeared mainly designed to divert attention from the failure of the general strike.

11. The Hong Kong Communists called a four-day "food strike" on 29 June and Peking cooperated by banning shipment of meat and produce to the Colony from the mainland. The strike proved to be ineffective--85 percent of the vendors were back in business by the fourth day--and the ban on food shipments was ended when the strike collapsed on 3 July. Continuation of the ban for a long period would have worked a hardship on the predominately Chinese population of the Colony and Peking was apparently unwilling to do this--or to lose the foreign exchange earnings involved--once the ineffectiveness of the effort by the local organization had been demonstrated.

#### Current Chinese Attitude

12. The Chinese Communists probably believe that they have committed themselves too far to permit a complete disengagement from the Hong Kong issue and Peking probably believes it necessary to provide sufficient political and financial support to maintain pressure and agitation at roughly the present level. It seems likely, however, that Chinese Communist actions will in the main be determined by the effectiveness of the Hong Kong apparatus in securing support from the local population. An editorial

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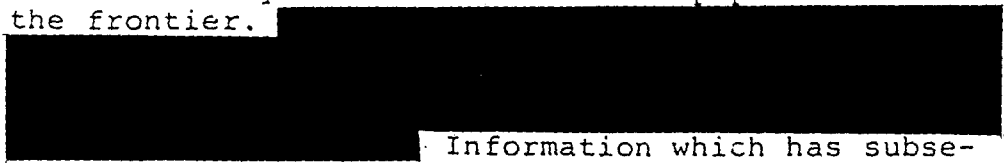


in People's Daily on 5 July emphasized the role of the local Communist organization in continuing the struggle. The editorial asserted that the "worker's strike" is the principal weapon in the battle against the British at present and declared that the Hong Kong workers, the "main force," must do a good job in uniting the population behind them.

Recent Incidents

13. If the clash on 8 July at the border village of Sha Tau Kok in the Hong Kong New Territories was ordered by Peking, it should probably be interpreted in this context--as a move to keep the pressure on and to encourage the local Communist organization. The village straddles the frontier--which runs along its main street--and provides an excellent arena for hit-and-run raids in a war of nerves. On 8 July a mob of demonstrators, some of them armed, came over from Communist territory. Police attempting to eject them were fired upon. Five officers were killed and more than eleven were wounded in the unequal exchange which ensued--police revolvers and carbines against infantry weapons in the hands of Communist militia.

14. The incident was almost certainly premeditated and the fact that five Chinese army officers were observed inspecting the area following a smaller demonstration which took place two days earlier suggests that the Communists planned for a fire-fight. During the five hours while the clash was in progress, a Chinese army battalion was moved up piecemeal to the frontier.



Information which has subsequently become available raises the possibility that the Sha Tau Kok fire-fight was planned and executed by local hot-heads or perhaps by a provincial faction with an ax to grind. Peking may have learned of the clash only after the fact. Senior Communist officials

1.5(c)(d)  
3.4(b)(1)(6)

in Hong Kong were apparently taken by surprise, and it seems likely that they would have been forewarned if the fighting had been part of a centrally controlled campaign.

15. The British chargé delivered a protest to the Foreign Ministry on 9 July and got the impression during his meeting with Vice Minister Lo Keui-po that the Chinese had been caught off base by the incident. Lo appeared embarrassed when the chargé quoted accounts from the Communist press in Hong Kong admitting that Chinese militia had crossed the border and fired on Hong Kong police. The chargé reports that Lo was ill at ease throughout the interview and he believes the Chinese fully realized the seriousness of the incident and were on the defensive.

16. In any event Peking's official treatment of the clash does not indicate an intention to build on the incident. The Foreign Ministry note delivered to the British chargé on 9 July blamed the Hong Kong authorities and called on the British to apologize, to punish those responsible, to pay compensation, and to guarantee that no similar incidents would occur in the future. The note was not so strongly worded as some earlier Chinese statements on Hong Kong, contained no threat of reprisal, and did not set a deadline for compliance with Peking's demands.

17. On 9 July Communist zealots in Hong Kong provoked a riot in which one policeman and a number of demonstrators were killed. More of the same is probably in prospect. Communist-controlled schools in the Colony are reported to be planning to keep students on hand during the summer vacation to take part in anti-government activity. It seems unlikely, however, that Peking intends at this time to go much beyond support of this kind of activity, possibly accompanied by recurrent harassment along the frontier. Escalation of Chinese military threats to Hong Kong would involve the risk of war, which could develop into a conflict with the US. Use of economic sanctions at Peking's disposal--cutting off water supplies and stopping food shipments--would inflict further damage on the Communist position with the Hong Kong population and could result in the loss of vital foreign exchange earned through trade with the Colony.

China's Financial Interests

18. Hong Kong is Communist China's largest single export market. It is also China's most important single source of foreign exchange. Last year the Chinese Communists earned over \$550 million in Hong Kong trade, approximately one third of their total earnings of foreign exchange. Chinese exchange earnings from Hong Kong have increased rapidly, almost doubling in the last five years and are still growing. Almost all of this would be lost if Peking took over the Colony, and a significant proportion would go by the board if the Chinese Communists took action short of seizure, which in effect would put Hong Kong out of business. Some direct sales to the Colony would continue but there would be a marked decline in foreign exchange earnings which would be a serious blow to Peking. The Chinese are obliged to buy some kinds of specialized scientific and technical equipment abroad as well as ordinary machinery and chemical fertilizer. A major item of expenditure for the last six years has been for the purchase of grain to meet the requirements of China's expanding population. Peking spent \$375 million in foreign exchange during 1966 to buy grain.