

Roads to Reconciliation

People's Republic of China, Western Europe and Italy
During the Cold War Period (1949-1971)

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The Hong Kong Riots and the Sterling Empire Last Stand

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Abstract The years 1966 and 1967 are crucial for British Crown's Colony of Hong Kong and for United Kingdom's economic relation with the People's Republic of China. Few studies on the subject addressed this reality only partially, whereas a thorough vision remains to be achieved. The 1967 left-wing riots marked a point of no return in UK's perception of the Hong Kong issue from a political standpoint as the events showed the British the exact measurement of their weakness in the area. But while agreeing that UK's decolonization strategy might have an earlier start, we have to point out that the years 1966 and 1967 need to be studied as crucial dates, which marks the acquisition of a new consciousness by the Hong Kong financial and industrial milieus: from then on, the economic future of the colony will look towards the Mainland and not anymore towards the United Kingdom, thus acknowledging the strong, though not problem-free, links built over the years by the Hong Kong capitalists with the People's Republic of China establishment.

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Keywords Hong Kong. Riots. Sterling. Devaluation.

1 Introduction

The Hong Kong riots in 1966 and 1967 represented a crucial moment both for the history of the former British Colony and for the relations between People's Republic of China and United Kingdom.¹ From the half of the '50s to the eve of the Cultural Revolution, the growth of Chinese trade and financial relations through Hong Kong was in many ways astonishing. That is true especially taking into consideration the current mainstream historiography that consider Communist China as an isolated country and

1 This article is part of a wider research elaborated by Roberto Peruzzi (Ca' Foscari University of Venice) and Valeria Zanier (LSE) to whom goes my greetings for her cooperation.

economy until the reappraisal of her diplomatic relations with the United States. Recent researches showed clearly that this was not the case regarding the Chinese economic relations with almost all the Western European countries (Romano, Zanier 2017; Meneguzzi, Samarani 2014). The development of the China-United Kingdom economic relations used the British Colony as a pivotal centre and a sort of 'financial and logistic hub' for the Chinese economy. Mainly two facts were the very bases of this situation. Firstly, the symbiotic connection between Hong Kong and Mainland China: a special relationship which permitted the fast growth of the Colony's economy through the '50s and the '60s as well as the maintenance of an open door for Communist China's economy to bypass the United States' embargo. The other decisive fact was the fundamental role maintained by the British sterling for the People's Republic of China's international trade and financial relations until the second half of the '60s (Peruzzi 2017).²

While the biennium 1965/1966 represented the peak of Sino-British trade relations in the first two decades of existence of the People's Republic of China,³ the Cultural Revolution on one hand and the Hong Kong's disturbances and riots of 1966/1967 on the other one, were the main reasons of the temporary crisis of their mutually beneficial relationship.

Until today Hong Kong protests of 1966 and 1967 were often considered as separated events. In the case of 1966 disturbances historiography considered them as a local, limited and not political issue, without any connection with 1967 riots, which were described as originated by economic and ideological instances of leftist protesters mainly backed by Communists, and for some historians even as a sort of plot led by the Chinese Government. As a matter of fact, until today the official reconstruction of the events and the mainstream interpretation left unsolved many obscure aspects of what really happened in those months of 1966 and 1967. Not to mention the official and unofficial documents we could study in the archives, which we have to consider at least as extremely contradictory and often conflicting with the usual historiographical interpretation.

The 'Emergency Act' introduced in July 1967 by the British administration legally permitted a harsh repression of any kind of social protest in Hong Kong, but also introduced a series of important regulatory acts not directly connected with the disturbances which reinforced the London Government control on the Colony. For the first time till 1941,⁴ the Act

2 The decisive role of sterling for the People's Republic of China's economy in the '60s has been generally ignored by the historians, but it is well known by economists as Susan Strange, Chatherine Schenk and Leo Goodstadt.

3 The volume of trade achieved for this period was reached again only around 1970.

4 During the Summer of 1941 a first 'Emergency Regulatory Act' was introduced by the British colonial administration in view of a possible conflict with Japan, including measures

permitted a direct control of the Bank of England on the local financial system, a necessary premise to the planned sterling devaluation.

This is not yet a reappraisal but an introduction to the enucleation of unsolved contradictions and doubts on the current reconstruction of what happened in the Crown Colony of Hong Kong in these crucial years.⁵

2 A Close Connection

British direct export to Mainland China doubled between 1962 and 1965. Trade missions intensified and important firms from Britain, as well as from Hong Kong, were always present at the semi-annual Canton fair. Only in 1964, the Sino-British Trade Council, created by the UK Government in 1954, promoted three specialized trade expositions in Beijing, participated by more than one hundred British companies. While between January and September 1965, not less than twenty-three Mainland China's trade missions visited the United Kingdom. Definitely, 1965 was the year in which we see the speeding up of economic relation's growth between Britain and the People's Republic of China (Laurens 1966, 75-6; Peruzzi 2014, 272-3). Nevertheless, if consistent British Government efforts to promote the growing of direct trade relations with China achieved a high qualitative level in industrial relations, they never reached the relevance and value of Hong Kong import-export and financial relations with Mainland China.

After the end of the Chinese civil war and the proclamation of the People's Republic of China, the British Crown's Colony⁶ of Hong Kong became the main scenario of Sino-British economic relations. After 1949 'shock', the British attitude toward Communist China was clear: "trade should determine British policy", as stated by the British Minister in China, Sir Ralph Stevenson in Summer 1949.⁷ With trade, and 'for' trade, the vital priority was the prospect to maintain the British control on the Hong Kong Colony as an 'open door' to Chinese economy, but also as a mean to preserve a

to guarantee the financial control of the Bank of England on the local banking institutions. Of course, after December 1941 and the Japanese invasion, the Act was no more effective.

5 A wider exposition by the author and Valeria Zanier (London School of Economics) was presented on May 7th 2015 in the LSE IDEAS Workshop: *Economic Encounters in the Age of Ideology. Exploring the Business Dimension of Political Confrontation in China, Russia, Europe (1945-1991)*.

6 Hong Kong was a 'Crown Colony' and this special status implied the fact that instead of the other members of the Commonwealth, in case of necessity the British Government could act without any consideration of local powers or needs, imposing the UK priorities and decisions to the Colony.

7 Stevenson to Bevin, 29 August 1949, F12884/1023/10, Stevenson to Bevin, 1 September 1949, F13102/1023/10, F.O. 371/75814.

British role in Asia (Ovendale 1983). Realistically excluding any prospect of a military stand to defend the Colony against the triumphant Chinese Communists (Fischer 1968, 323-4), the alternative was yet envisaged by the Far East experts of the Foreign Office in London before the end of the Civil War. Being traditionally linked with the Mainland in entrepôt trade, the British Colony of Hong Kong had played a crucial role at the end of 19th century and in the early part of the 20th century, as a necessary hub of services to China's trading and investing partners (US, Japan, and Western European countries). It was essential to show to the new Chinese Government the advantageous opportunity to use Hong Kong as a sort of 'hub' of financial and logistic services to support Mainland China's economic reconstruction (Shai 1984, 150-1; Peruzzi 2014, 249-53).⁸

As a matter of fact, this is what effectively happened between the second half of the '50s and the first half of the '60s. While Hong Kong played a very peculiar role in Cold War politics, being an outpost of a Western power just at the border of Communist China, the Colonial administration professed complete political neutrality in order to preserve Hong Kong's economic laissez-faire, which meant for everybody the possibility to prosper. During the '50s the bases for Hong Kong's 'economic miracle' as well as for a real symbiotic relation between the British Colony and the People's Republic of China's economies were created.

It has not yet been pointed out clearly how Hong Kong miracle was dependent on Mainland China. Continuing the tradition in entrepôt trade, in the early '50s China became the most important food provider to poorly endowed Hong Kong: rice, livestock, fresh vegetables and drinkable water⁹ fed the increasingly populated and industrialised Colony's islands, while Hong Kong offered in return an easy access to free market, banking and logistic services (Peruzzi 2014, 265-7).¹⁰ Not only were Hong Kong people fed with Chinese food and Chinese water, but Hong Kong factories lived on the frequent waves of migrants who provided low-wage workers who were essential to keep the local manufacturing sector competitive. Wages could be kept low because of the cheap food, textiles and other light products coming from the Mainland, thus creating a delicate economic dependence based on a tacit partnership across the two sides of the Hong Kong bay. This circumstance is crucial to understand what was at the core of the tense social situation that had formed in the Colony in the first half

8 PRO FO 371 46232 F 1331/409/10. PRO CAB 129/31, CP (48) 299, December 1948.

9 Its should be rememberedx that until 1969 Hong Kong was completely dependent on Mainland China for drinkable water supplies.

10 For example the shipment companies registered in Hong Kong, formally British but often under Mainland China's control which permitted to bypass the embargo under the British flag.

of the '60s. The number of inhabitants had far exceeded the capability of the city, and many lived in deplorable conditions, while both workers and businessmen had reason to fear for any inflationary movement that could push prices up.

The Colony was administered in a very conservative way, with very little contribution from the locals, no constitutional reforms were scheduled, and the least developed monetary system of all British colonies. While having a currency, the Hong Kong dollar, the Colony did not have any central bank. The control lied within an Exchange Fund in London, which was controlled by private commercial banks (Hong Kong Shanghai Banking Corporation, or HSBC, Mercantile Bank, Chartered Bank). HSBC was responsible for issuing Hong Kong notes and holding the Colony's balances. But HSBC was also the financial institute with the closest ties with Mainland China interests and with the 'Communist' Banks operating in Hong Kong (Schenk 2012, 47-8),¹¹ contributing to strengthen the economic link between local and Communist China's interests (Peruzzi 2014, 253-65).

In 1966-1967, British sterling was still the main foreign currency employed by the People's Republic for international trade and finance operations. In the same period, Hong Kong was the main international British sterling market outside Britain and the most important source of foreign currency for China (Schenk 2012, 58; Peruzzi 2014, 275).¹²

3 The 1966 Protests and Riots or 'the Comedy of Ambiguities'

As reported in the vivid words of a witness, "in the mid-Sixties, Hong Kong was not exactly swinging if you were poor" (Mullone 1996, 161). During 1965 British trade and financial relations with the People's Republic of China flourished and reached their maximum level since the end of Chinese Civil War. The symbiotic link between Hong Kong and the Mainland China economies was stronger than ever. But 1965 was not a good year for the British Colony. "A stock market crisis in 1965 had caused a run in the banks. Some of them had folded and many people saw their savings wiped out" (Mullone 1996, 161). Economic and social anxiety was growing also among the new Chinese middle class of the Colony. "Factory owners were looking for ways to cut costs, and soon tapped into the hordes of new immigrants from the mainland willing to work for a pittance. Layoffs were

11 Between 1961 and 1970, thirteen Mainland China controlled banks were operating in Hong Kong, with a total of fifty-five open branches in the Colony. If the Bank of China was without a doubt the most politically influential Chinese owned bank in Hong Kong, the Nanyang Commercial Bank was the largest for deposits and advances.

12 Flanked on a minor scale by Singapore and Kuwait City. Particularly the last one had a certain relevance as a foreign currency source for the People's Republic of China.

commonplace for longtime residents” (161). The feeling of an unrestrained transformation was commonly shared by the people, but the faith in growing opportunities and richness knew a sudden stop that year.

In the countryside, new towns and industrial estates were eating up the landscapes. Villages not swallowed by the sprawl were emptying of people, leaving the old to die in their cabbage patches and the livestock to wander aimless and ownerless. Buffaloes tumbled into the new catchwaters which were built to channel every drop of water to the cities, and their carcasses choked up the nullahs of Tsuen Wan and Choi Hung. (Mullone 1996, 161)

While often the reconstruction of the 1966’s riots described them as unforeseeable events, the origins of which were groundless if searched in the Colony social and economic situations Liam Mullone’s words well describe the growing uncertainties and tensions that characterised the common people of Hong Kong’s feelings in the months before the disturbances.

Tensions and riots were not something new to the Colony. Early in 1956 serious and violent incidents and demonstrations were organized in Kowloon by Chinese nationalist militants, led by Guomintang controlled Trade Unions, while Communist trade unionists opposed them. Even in the early ‘60s many groups, associations or unions linked both to the Guomintang or to the Communists organized protests, strikes and demonstrations.¹³

On 4th April, a young man called So Sau Chung began a hunger strike in front of the Kowloon Star Ferry’s entrance hall denouncing the rise of living costs and the announced rise of the Ferry fares. If the proposed fare rise involved only first class tickets, it was clear that this was just the first step to which also the second class will eventually follow as part of a program of general prices increase involving all the transports system of the Colony as denounced by the urban councillor Elsie Elliot. So’s protest was intended to support Miss Elliot’s action in the urban council, and she was present that day in front of the Star Ferry Hall trying to convince So to suspend the protest before the intervention of the police. In those days Elsie Elliot and Brook Bernacchi, both well-known activists of the Reform Club, presented a report denouncing colonial police wide corruption and its involvement in drugs smuggling. Particularly they denounced the chiefs of the Mongkok police station, the police officers Lui Lok, Peter Godber and Nam Kong, which covered in their jurisdiction the Kowloon Star Ferry offices. The next day, 5th April, another young man, Lo Kei, joined So in

13 Also other groups were socially and politically active in Hong Kong. For example, the Triad organisations took a certain role in the 1956 disturbances. But also democrats, labourists, Trozkysts, anarchists and pro-soviet Communists associations or groups were present in the Colony.

the hunger strike, but in the afternoon the Mongkok's police arrived to disperse the crowd gathered around. They arrested So Sau Chung, while a small group of young people began to protest against police violence leading a demonstration in Nathan Road. The same day Elsie Elliot was denounced by the police and the colonial administration as the responsible for the organisation of the protests and as an anti-British troublemaker, and on 6th April morning So Sau Chung was sentenced to three months for obstruction of a passageway (Mullone 1996, 162).

Throughout that day and the following night, the protest grew and became an extended riot involving the territory of Kowloon. While most of the protest were located around the Mongkok Police station, pillages and devastations extended in many parts of the district and the initial protest against the police became a chaotic outbreak (Mullone 1996, 161).¹⁴

The British colonial administration, the police and the official media immediately denounced that the only reason of the riots was the protest against the ferry fare rise underlining their absurdity with the fact that fares rises would have involved only first class tickets, excluding any other possible reason as the origin of the riots. On the other side, when interviewed, quite all the people involved in the riots recognised police corruption and violence as the main reason of their involvement in the demonstrations. Police's repression of the protests was extremely violent involving not only looters and pillagers but also peaceful demonstrators: a young man was killed by the police, 1,800 persons were arrested, more than 450 were sentenced and hundreds were injured. If the riots of April 1966 were essentially located about this event, a strong and widespread "undercurrent of resentment surely remains" (Mullone 1996, 162).¹⁵

In February 1967, the British Parliament enquiry commission established and declared in a long official report that the riots of 1966 had no political, social or economic reasons pointing out the Kowloon Star Ferry's fares rises as the only reason of the disturbances. A paradoxical conclusion, considering the fact that the same report recognised the growing social anxiety of the lower and middle classes of the Colony caused by the increasing cost of living, the lowering conditions of life, diffuse wage level reductions, a widespread perception of general worsening in economic

¹⁴ It has to be pointed out that no protest was directed against the Kowloon Star Ferry offices, in front of which they began, nor any damage was registered to the Star Ferry buildings and properties. In the words of Liam Mullone: "This seemed to beg the question: did the 'Star Ferry Riots' really have anything to do with the pricing policy of the Star Ferry?" (Mullone 1996, 161). FCO 40/39/ Kowloon Riots 1966/ Report of Commission of Inquiry, 1-167.

¹⁵ CO 1030/1747/Confidential/Trench to Carter (C.O.)/26 May 1966, (included in), *Memo-randum of Reference for Use by Counsel Representing the Government/25.5.66/Confidential, 1030/1746/Secret/From the Governor of Hong Kong to the Secretary of State for the Colonies/Kowloon Riots/15 April 1966. FCO 40/39/ Kowloon Riots 1966/ Report of Commission of Inquiry, 1-167.*

conditions. Elsie Elliot, So Sau Chung and the democratic media, associations and militants denounced the report of the enquiry commission. But officially, the riots of 1966 had no reasons.¹⁶

4 Waiting for the Storm? 1967 Hong Kong's Riots

In 1967, China witnessed some of the most violent and disorderly deeds of the Cultural Revolution. In Hong Kong, the same year is notorious for the riots, maybe inspired¹⁷ by the Mainland, surely largely caused by harsh living conditions of the working class. As to Britain, 1967 is the year when, eventually, the insufficient economic growth and the inherent risk of inflation spiral made prime Minister Harold Wilson devalue the pound.

On February 1967, in Macao students' protest against Portuguese colonialism were harshly repressed by the Salazar regime police killing and injuring many of them. The Chinese population of the Portuguese colony reacted with a fierce mobilisation for a general boycott of the colonial administration and economy. The protest was directly supported by the People's Republic of China, which organised an embargo and a sort of naval blockade of the Portuguese controlled territory. In March 1967, a month later, the Lisbon Government had to surrender to the protesters accepting all their claims and paying compensations to the family of the killed and injured by the colonial police. The Macao facts became immediately a stunning example for nationalists and communist militants in Hong Kong.

The chance to follow the Macao's example soon arrived at the end of April 1967 and in the early days of May. An artificial flowers factory, property of an American company, in San Po Kong was acting a massive dismissal initiative without any respect of the Colony's labour regulatory laws and refusing any dialogue with the local trade unions. After some days of peaceful protests and pickets, on 10th May violent disturbances spread out with the police, which arrested twenty-one workers and trade unions' activists. From 11th May, protesters began to run the Kowloon streets with leftist, and often Maoist, slogans and banners against the colonial police and administration. on 12th May, for the first time Beijing's official papers directly incited the people of Hong Kong to support the demonstrations against British imperialism and colonial regime following the example of

¹⁶ It could appear absurd in many way, but until today this interpretation of 1966's riots has been commonly repeated. For example see: URL <http://hongwrong.com/1967-hk-riots/> (2018-02-27). FCO 40/39/ Kowloon Riots 1966/ Report of Commission of Inquiry/ Conclusion, 150-67.

¹⁷ Or even directed by the Chinese Government as happened in Macao in February 1967. As a matter of fact, still today there is not a definitive proof of Beijing's involvement, while many documents could give way to unsolved questions and doubts on this prospect.

Macao's people. Responding to what seemed a call to arms from the Chinese Communist Government, Mainland China controlled companies, institutions and newspapers began to directly support the demonstrations and the claims of the protesters. Strikes, demonstrations, barricades, violent clashes, assaults to the police stations and to the colonial administration's offices characterised Hong Kong scenario until August 1967. On 8th July a clash at the border with the Mainland, causing the death of five Hong Kong policemen, spread a fear that a Chinese invasion might take place. London provided military assistance by sending land reinforcements and, later on, a detachment of R.A.F. helicopters.¹⁸

In the Summer of 1967, London supported the decision of the Hong Kong Governor to enact the Defence Regulation Acts (also, Emergency Act), a series of temporary control measures, which allowed some extraordinary powers to local authorities, including the restraint of some basic personal freedoms. The emergency measures enforced in Hong Kong in 1967 includes: opening and closing of premises; obligation to provide a name and address when approached by disciplinary forces; regulation of assemblies; sanctions against the dissemination of inflammatory materials and speeches; trial without public proceedings; right to deport and detain (Ray Yep 2012, 1007-32; Sinclair 2009, 89-104). In the correspondence between the Foreign Office and the Hong Kong Colonial Government, this decision is linked to the consideration that Beijing was to be held highly responsible for the Hong Kong riots of Spring-Summer 1967. There is no direct evidence that this was the case.

As a matter of fact, the authors who have highlighted Beijing's strong involvement have based their arguments on the evidence provided by Hong Kong and Beijing newspapers, mostly by quoting slogans and political jargon supportive of the highly ideological turn that had been inaugurated by 1966's Red Guards movement. On the other hand, those scholars who have studied the correspondence among the three subjects involved (the Hong Kong Colonial Government, the Foreign Office, the British embassy in Beijing) have highlighted that the British diplomats in China denied Beijing directly supporting the riots, as this would have meant acting

18 In late August the Colonial Government asked additional help from Defense to build a new border fence. An obstacle of about 30 feet wide, consisting of coils and barbed wire "to stop land incursions of all kinds" The Colonial administration proposed to use civilian labour force for the erection of such obstacle under the direction of military personnel, expressly asking London to provide financial help: "Our present view is that they are defensive arrangements designed to meet an external threat and that therefore the charge should be one which this Government should not have to meet". As there was no military invasion, in Autumn, when the situation resumed to normal, the Colonial Government was asked to pay for all the interventions of the military. FCO 40/99/ Hong Kong Telegram no. 1320 to Commonwealth Office, 29 August 1967. FCO 40/99/ Report of the Ministry of Defence to Commonwealth Office, 17 October 1967.

against their own interests. Donald Hopson, British Chargé d'Affaires in Beijing, advised London Government not to use harsh measures in Hong Kong in order not to provoke a real Chinese reaction (Ray Yep 2012; Ray Yep 2008, 122-39). Actually, it is a fact that the most violent actions by the Chinese, as the burning of the British embassy in August 1967, or the killing of policemen on the border of the Colony, did not provoke any harsh reaction nor by the colonial authorities in Hong Kong nor by the British Government in London. Nor did the emergency measures in Hong Kong provoke other reactions in Beijing.

The reports by the Hong Kong police clearly state that the riots in May and in the Summer of 1967 were motivated by social unrest due to the fear of food price rising and the general worsening of living conditions in the island. The correspondence between the Governor and London in the first month after the strikes in April at the Kowloon's flower factory also shows this interpretation of the origins of '67's disturbances. Only afterwards a strong Beijing role was reported and without any clear evidence on the existence of the linkage, except for the slogans and articles published on Beijing's newspapers.¹⁹

As a matter of fact, the London Government and the Hong Kong colonial governor David Trench firmly stated that Beijing was directing the riots, even before there were any certainty of it. The evidences in the British archives show that such statements did not have any basis, as no research was ever conducted on the facts, while the reports underwritten by the Colonial governor, the Foreign Office, the press, the military and the different intelligence agencies, confirmed the local origins of the disturbances of 1967. The prompt 'communist' explanation of strikes and riots was homogeneous, both in London and in Hong Kong long time in advance. In order to sustain the Communist hypothesis, the authorities founded their views on two 'scientific' elements: one was the report by the Davis Foundation (an institution based in London, dealing with the pacific resolution of conflicts), which confirmed the involvement of the People's Republic of China and the influence of the Cultural Revolution, but did not provide any examination 'on field' nor involved any China/Hong Kong expert. The main sources used by the Davis Foundation were, as a matter of fact, articles from the British press and from a selection of Hong Kong and Mainland China press (only from newspapers in English). The second 'scientific' element was a report written by a research group within the London School of Economy, composed of experts on international crises. This report makes use of the same sources as the Davis Foundation, without any 'on-site' examination. Moreover, the London School's report did

19 FCO 40/54, HK Police Report, July 1967. Similar views were shared by the Intelligence. FCO 40/101, Ref. TS 2/57 III-L.I.C. Monthly internal intelligence report: March (doc. no. 15-14), April (doc. no. 18-17), May (doc. no. 21-20), June (doc. no. 25-24), July (doc. no. 27-26).

not take into account any internal/local variable, but only considered international relations.²⁰ Both reports will be used time and again in London by the Foreign Office, the military, Treasury, and Bank of England, and in Hong Kong by the Colonial Governor, the Administrative Council, and the press in order to prove and confirm the role of the Communists, of the Chinese Communist Party and the Cultural Revolution in influencing the Hong Kong protests.²¹

'Interpreting' the 1967 riots is quite tricky because the monthly reports by the Hong Kong local Intelligence, as well as the police reports written in Summer and in Autumn, show a quite divergent view. Many examples based on official document could be carried out. An official report of the beginning of July 1967 concluded that there was no evidence of the existence of 'terrorist' organisations or organised violent groups, and the eventual choice of the Communist Party and organisations for the use of violence was a hypothetical possibility for the future as a consequence of the successful police repression of the disturbances, but in July 1967 is not a fact.²² Another official communication of the Hong Kong Police Department to the governor Trench reported on the arrest of fifteen people reputed among the main ring leaders of the riots concluding there were no evidence of connections between them and the Communist Party.²³ The official papers, especially the Police and Intelligence ones, definitely show a much slighter role of Hong Kong Communist organisations and permit to doubt about a strong involvement of China's leadership.²⁴

This 'reading' of the riots finds support in the analysis carried out by Ray Yep, where he demonstrates that Governor David Trench was himself convinced of the local origin of the riots as an outburst of rage for the worsening social situation. In May he wrote: "there is every indication that this [original industrial dispute] was a spontaneous incident", although

20 FCO 40/39/The David Davies Memorial Institute of International Studies. *Case study of Disturbances in Hong Kong 1967*.

21 As a matter of fact, among dozens of intelligence and military reports, there is but one 'on-site' report written by the Military Commander and responsible for Hong Kong security on the China border (he was new to Hong Kong, and he had been awarded with this role for very little time). He systematically denounced the Communist manoeuvres, their plots and infiltrations by Red Guards.

22 FCO 40/54/Tel. no. 1013/From Hong Kong (O.A.G.) to the Commonwealth Office/12 July 1967.

23 FCO 40/54/Tel. no. 1425/From Hong Kong (O.A.G.) to the Commonwealth Office/18 July 1967.

24 From the Autumn 1967 and with more intensity in the beginning of 1968 Hong Kong local communists and their trade unions organised a campaign called 'Return to work' aimed at cooling down the protests and contrasting new waves of strikes. FCO 40/101, Ref. GEN/14/368/56, April 18, 1968. *The Communist Campaign 'Return to Work' Policy*.

publicly he was already denouncing a strong involvement of the Communists.²⁵ In his articles, Yep points out that Trench was eagerly pushing for a firm action and he succeeded in convincing the British Government to enact emergency measures by exploiting London's uncertainty over the future of China and its lack of viable options in defending British interests (Bickers, Ray Yep 2009, 4-5, 21-36).

As far as the disorders towards Hong Kong and the British are concerned, the Colony's Intelligence and Police's reports show that in the beginning of the Summer '67 the Chinese People's Liberation Army was in control and pushed back the most violent groups from the frontier. In June, the Guangdong authorities prohibited the posting of *dazibao* attacking British administration in Hong Kong, inviting Guangdong residents to disregard such state-to-state relations, which undergo Beijing's responsibility. The only violent fact, so far, remains the clash which happened on 8th July. Whereas the situation was still chaotic in many parts of Guangdong province, especially in rural areas, from July 1967 the central leadership and the PLA devoted a special attention to the frontier and actively intervened to avoid new Red Guards' demonstrations as confirmed by British border Intelligence reports.²⁶

Finally, an important document of the British Treasury in August 1967 maintained that Hong Kong was 'the' problem for British Government in 1967. The document contains a further study on the potential consequences that a Chinese invasion of Hong Kong would bring about. The situation in Hong Kong was entirely dependent on the state of United Kingdom-China relations: if they were reciprocally advantageous, there cannot be any real threat for Hong Kong. Considering that China obtained enormous benefits from exporting to Hong Kong and on the financial/monetary side, it would be highly unlikely that she would consciously ruin her interests by provoking a crisis/invasion. Of course, those observations were related to the official position, not to the actions carried out by 'extremists'. The document negated that the riots could happen independently from Beijing's will. However, exactly for this reason, it concluded that there was no real threat, as any such action would heavily damage the Mainland economic interests.²⁷

25 FO 40/45, Hong Kong to the Commonwealth Office, 7/5/1967, telegram no. 947.

26 FCO 40/101, Ref. TS 2/57 III-L.I.C. Monthly internal intelligence report: March (doc. no. 15-14), April (doc. no. 18-17), May (doc. no. 21-20), June (doc. no. 25-24), July (doc. no. 26-27).

27 TNA, 317-902/Confidential/n°26/'Relations with China'/Annex2/F(E)Department/August 1967.

5 The Sterling Devaluation

When on 19 November 1967 at 1:30 a.m., London announced the decision to devalue²⁸ the sterling without any previous consultation or consideration for the interests involved in Hong Kong, and the main worries in the Colony were related to the evident consequences on prices for the export, and for imports from Mainland China. The risk of inflation involved political considerations: after 1966 and Spring '67's riots and strikes, Hong Kong government placed a great importance to the control of basic goods' prices, the increasing of which was considered the main reason of the disturbances (Ray Yep 2008, 122-39).²⁹

Following the announcement, an Executive Council meeting was convened to decide on the Colony's response. During the afternoon of 19 November, Singapore and Malaysia announced that they were not going to follow the sterling. Their announcement opened the door to the protest of the HSBC representative in the Council meeting, supported by the Chinese members. The HSBC expressed for the first time a clear position in favor of the autonomy of Hong Kong's economy and currency from British Government decisions, manifesting its role as main actor and warrantor of China's new economy in the international financial system (Peruzzi 2014, 279-81).

We can easily understand this lack of transparency. During 1966 and 1967 officials of the Bank of England had frequently expressed their concern for massive capital flight through Hong Kong. In late October 1967 when D.F. Hubback of the Treasury met Chief Financial Officer John James Cowperthwaite in London, the latter reassures him: "Now that the Chinese had relaxed their pressure, funds were returning to Hong Kong from Singapore and elsewhere".³⁰

Therefore, it is understandable that the attention focused on Hong Kong: being a Crown Colony, there was a way for the Bank of England to exert control, though only as an observer. The Bank could require information from financial institutions and other actors that performed exchange operations. The Bank could also request information on bank deposits. Never-

28 On sterling crisis and devaluation: Cairncross, Eichengreen 1983; Strange 1971a, 302-15; 1971b.

29 The absolute relevance of the Hong Kong's disorders from Autumn '66 to Summer of '67 in determining extreme political and economic decisions of the Colony administration is well shown in Ray Yep's research.

30 Sarcastically he underlined that he reputed much more realistic the eventuality of a 'sudden' devaluation of the sterling than a Chinese threat to Hong Kong. T 295/240/Top Secret/ 'Note on a Meeting in Mr Hubback's Room, 2nd Floor, Treasury Chambers, Great George Street, SW1, on Friday 15th September 1967, at 10.15 a.m.' At the meeting were presents: D.F. Hubback, J. Cowperthwaite (Financial Secretary of Hong Kong), H.P. Hall (Commonwealth Office), E.P. Haslam (Bank of England), A.K. Rawlinson, S.H. Wright, A.R. H. Glover (the last three for the Treasury).

theless, there was no legal obligation for the institutions to respond. They could release information on a voluntary basis. The Bank, therefore, had no means to independently verify whether such information was or not complete, neither could she sanction those who refused to share or those who gave partial or false information. It is interesting to note that the Bank of England would only activate her observer status in early 1967. She had not felt any need to do it before that date. But this was not enough and a limited power could not allow the Bank of England to act with rapidity avoiding the possible threats and consequences for the sterling devaluation that she was secretly preparing till the end of 1966.

In February 1967, the Bank of England and the Treasury Department started a discussion on the opportunity to enact a strategy to exert a strict control over those financial operations performed in Hong Kong that involved exchange of sterling into other currencies and capital export.³¹ An episode happened in 1941, when, due to the existence of the external menace of a Japanese invasion of the Colony, a series of Emergency Regulatory Acts had been approved. Those regulations conferred the Colonial Government special powers, including the possibility to exert direct control over all exchange operations involving sterling and foreign currency fluxes. In 1941 the Colonial Government allowed the power to control the activities of all financial institutions including all British and foreign banks registered in the Colony. From these discussions, we can infer that in 1967, if the existence of a similar 'external menace' would be acknowledged and proved, the British authorities could have invoked the precedent, to declare the Emergency status, and confer special powers to the Bank of England. With such special powers, the Bank of England could have exerted direct control over exchange operations and preventing any possible threat in light of the impending devaluation.

In the years 1966-1967 Hong Kong detained the most relevant liquidity reserves in sterling outside the United Kingdom and part of such reserves was held at the Bank of England. The Colony regulations, and its financial structure, could potentially enable a real-time conversion of capitals in the event of sterling devaluation, because of the possibility to convert sterling into Hong Kong dollars and the latter into other currencies, without any control. Of course, the Bank of England and the Treasury observers felt this situation as a relevant potential threat for any successful devaluation initiative.

It is possible to advance a hypothesis on the fact that the Bank of England and the Treasury in early 1967 found a way to adopt the emergency measures that were independently proposed by governor David Trench. It is very likely that to be fully accepted in London, such harsh measures had to be presented with a very good justification, for example a marked

31 Bank of England, OV44/258.

involvement of Beijing in the local disturbances. In case there appeared a clear evidence that the riots were orchestrated by Beijing, then this would have made an excellent motivation for the British Government to heavily intervene in Hong Kong, enacting emergency measures and strict controls over the movement of capitals. Having proved the existence of an 'external menace', in July 1967 the Colony was able to enact the Emergency Regulatory Acts, which included special powers in financial matters and the possibility for the Bank of England to control exchange and other financial operations by invoking the 1941 episode (Bickers, Ray Yep 2009; Ray Yep 2008).³²

6 Conclusions

When London devalued sterling in 1967, the way this operation was conducted as far as Hong Kong is regarded, shows that British Government and the United Kingdom's main banking institution, harboured many doubts on Hong Kong's trustworthiness. The decision to devalue sterling without allowing Hong Kong to prepare for this eventuality derived from a clear aim: blocking the main channel whereby the money exited from the British economic empire. The conclusion is that the financial world was already projected towards a new era and new protagonists, they could foresee already in 1967 that the times were ripe for a new balance ruled by the United States and for the ascent of China as a world player. Hong Kong was already part of this new balance, whereas the United Kingdom had met the obstacles of new players and was just undergoing a difficult economic reshuffle, which would lead the country to largely abandon the manufacturing sector for services. Whereas the British business and financial community had a clear idea on how to address such issues, the London Government and the Bank of England were not prepared to change, nor to rephrase their relationship with the Crown Colony of Hong Kong.

The year 1967 marks the acquisition of a new consciousness by the Hong Kong financial and industrial milieus: from then on, the Colony will turn her back to United Kingdom and direct her gaze right towards the Mainland.

On 1967 turmoil and riots there was no official inquiry. Both London Government and British Colonial administration in Hong Kong decided which was the nature and origins of the disturbances. They gave an official and political *vulgata*, which established there was no need to know more about the protests. About 1966 events a Parliamentary Inquiry Commission investigated every little aspect of the riots with quite limited results for ten months, but for a much larger and relevant episode as the May-August

32 FO 40/45, Hong Kong to the Commonwealth Office, 7/5/1967, telegram no. 947.

disturbances of 1967 no enquiry at all was done. The official interpretation became the mainstream representation and narrative of the facts of that year, and still today it is. Even a superficial reading of the archives materials gives way to a doubtfully view of this consolidated interpretation. The bulk of memorials and interviews with witnesses or journalistic reconstructions³³ often show their agreements with the official interpretations but nevertheless contradictions with the archives documents remain in evidence (Ka-wai Cheung 2009).

If the riots were the expression of a Beijing will to subvert the British power in Hong Kong, as a prelude to a Communist invasion of the Colony, as the British authorities said, so the Emergency Act of July 1967 was justified. The financial control measures and the powers given to the Bank of England with the new regulatory act were assumed in a context of security measures intended to defend the Colony from an invasion. Was it by chance that these were exactly the powers the Bank of England needed to guarantee the success of the programmed devaluation? In 1967, were the Hong Kong riots a precious opportunity for British interests? It is not yet possible to give a certain answer to this question but certainly we could underline the evidence of the connection between the riots and the financial measures adopted. If in 1967 sterling devaluation was the central strategic issue for the United Kingdom Government, in the long run the success in achieving this aim represented also the beginning of the end of British power in Hong Kong. The crucial year of 1967 created a definitive fracture between the colonial power and the workers of the Colony. Their protest was successfully repressed but resentments against the British rule rose up and survived. On the other side, in the same year the local financial and industrial interests were heavily damaged by the sterling devaluation. Local economic lobbies were humiliated by the means used to achieve the aim and by the arrogance of British Government in assuming such important decisions without any considerations for the local priorities. The 1967's Hong Kong emergency was successfully managed by the British colonial authorities, but maybe their success was the first step of the loss of their power.

33 Among them Cheung's book is one of the more interesting.

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