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FM PEKING 140600Z JAN 82

TO PRIORITY F C O

TELNO 30 OF 14/1

INFO PRIORITY HONG KONG (PERSONAL FOR GOVERNOR).

Hong Kong 18
Ps/NO 10 Downing St
ms.

HONG KONG TELNO 3: PAO AND THE FUTURE OF HONG KONG

1. THIS IS AN INTERESTING TELEGRAM. I AGREE WITH THE GOVERNOR'S COMMENTS IN PARAS 7 AND 8.

2. I NOTE GU MU'S REFERENCE TO SOVEREIGNTY, WHICH CONFIRMS OUR OWN ASSESSMENT. HUANG HUA'S COMMENT IS A FORETASTE OF CHINESE NEGOTIATING TACTICS, WITH THE CHINESE TAKING AND NOT GIVING. NEVERTHELESS, IT IS AN ADVANCE ON DENG'S POSITION LAST APRIL, IN ACCEPTING THAT THERE SHOULD BE SOME JOINT EFFORT AT A SOLUTION.

3. A LOAN WOULD CERTAINLY NOT GET US OFF THE SOVEREIGNTY HOOK, AND ANY PREFERENTIAL ECONOMIC AID WOULD HAVE TO BE CAREFULLY PRESENTED, TO AVOID SUGGESTIONS THAT WE WERE TRYING TO "BUY OFF" THE CHINESE. YET AN INDICATION THAT A LARGE SUM MIGHT BE AVAILABLE AT PREFERENTIAL RATES WOULD ASSIST THE ATMOSPHERE AND MIGHT ASSIST THE SUBSTANCE OF TALKS ON HONG KONG. I WOULD NOT ONCE MORE ENTIRELY RULE THIS OUT AS A MEANS OF INFLUENCING A SOLUTION AND WE SHOULD PARTICULARLY GIVE IT THOUGHT IN THE CONTEXT OF THE PRIME MINISTER'S VISIT.

FOR HONG KONG

4. I SHOULD BE GRATEFUL IF AN INVITATION COULD BE PASSED TO SIR Y K KAN TO HAVE LUNCH WITH ME DURING HIS VISIT HERE AT THE END OF APRIL. ALSO FOR INDICATION OF THE LIKELY DATES. I SHOULD ALSO BE GRATEFUL IF SIR Y K PAO COULD BE ENCOURAGED TO CALL ON ME WHEN IN PEKING.

CRADOCK

[THIS TELEGRAM WAS NOT ADVANCED]

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MR GOODISON
MR DONALD

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FM PEKING 080748Z JAN 82
TO PRIORITY FCO
TELEGRAM NUMBER 18 OF 8 JANUARY
INFO PRIORITY HONG KONG (PERSONAL FOR GOVERNOR)

FOR CLIFT

NIPT: LPS MEETING WITH ZHAO ZIYANG: FUTURE OF HONG KONG

Land Joint Deal

1. WHEN THE LPS MET PREMIER ZHAO ON 6 JANUARY HE RAISED THE QUESTION OF RELATIONS BETWEEN CHINA AND HONG KONG, REFERRING TO AREAS OF PRACTICAL COOPERATION E.G. SHENZHEN. PREMIER ZHAO SAID THAT THERE WERE NOW NO DEEP PROBLEMS BETWEEN HONG KONG AND CHINA AND AGREED THERE WAS MUCH GOOD COOPERATION. HE (ZHAO) THEN RAISED THE SPECIFIC QUESTION OF THE FUTURE. HE SAID THAT MANY LANDOWNERS IN HONG KONG WERE CONCERNED ABOUT THE FUTURE. YOU HAD RAISED THE MATTER WHEN YOU MET DENG IN APRIL 1981. THE CHINESE HAD NOT STUDIED THIS QUESTION IN "A VERY CONCRETE WAY". BUT HE BELIEVED THE BRITISH SIDE WAS WELL AWARE OF THE CHINESE SIDE'S GENERAL STAND, NAMELY THAT:
 - (A) CHINA WOULD SAFEGUARD HER SOVEREIGNTY.,
 - (B) THE PROSPERITY OF HONG KONG WOULD BE MAINTAINED.
2. HONG KONG WAS A FREE PORT AND A COMMERCIAL AND FINANCIAL CENTRE. THIS WOULD NOT BE CHANGED. HONG KONG'S PROSPERITY COULD ONLY BE MAINTAINED IF IT WAS A COMMERCIAL CENTRE AND A FREE PORT. AS TO THE APPROACH TO A SETTLEMENT OF THE ISSUE AND ITS POSSIBLE FORMS, VERY CAREFUL STUDIES WOULD BE UNDERTAKEN. AT THE APPROPRIATE TIME CHINA WOULD DISCUSS THE PROBLEM WITH "THE VARIOUS CIRCLES" IN HONG KONG AND ALL THE PARTIES CONCERNED, AND WOULD TAKE HEED OF THEIR VIEWS.
3. ZHAO RECALLED YE JIANYING'S NINE POINT PROPOSAL FOR TAIWAN. FROM THIS, CIRCLES IN HONG KONG AND THE BRITISH GOVERNMENT COULD GET SOME IDEA OF CHINA'S THINKING. THE POLICIES NOW BEING IMPLEMENTED IN THE SPECIAL ECONOMIC ZONES WERE ALSO RELEVANT. WITH REFERENCE TO AN EVENTUAL SETTLEMENT, CHINA'S POLICIES WOULD BE "VERY REASONABLE".
4. ZHAO SAID THAT WHAT HE AND VICE PREMIER JI HAD TOLD THE LPS REPRESENTED CHINA'S GENERAL STAND. THERE WAS AS YET NO SPECIFIC FORMULA. BUT THE PROBLEM WOULD NOT BE PUT ON THE SHELF UNTIL 1997. AT AN APPROPRIATE TIME THE CHINESE SIDE WOULD DISCUSS WITH THE VARIOUS CIRCLES IN HONG KONG AND WITH THE BRITISH SIDE. THAT WAS ALL HE COULD SAY AT PRESENT.
5. THE LPS THANKED PREMIER ZHAO. HE SAID THAT THE PROBLEM WAS NOT AN IMMEDIATE ONE, BUT THE YEARS WERE PASSING AND THE SUBJECT HAD COME UNDER DISCUSSION IN HONG KONG, ESPECIALLY AMONG THE BUSINESS COMMUNITY. IT WAS IN EVERYONE'S INTERESTS THAT PROSPERITY

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SHOULD BE MAINTAINED. AS THINGS STOOD, THERE WAS THE ABSOLUTE CERTAINTY THAT IN 1997 THE LEGAL BASIS WOULD COME TO AN ABRUPT END. THIS WAS WHAT THE TWO SIDES NEEDED TO STUDY.

6. ZHAO ZIYANG AGREED THAT THE MATTER WAS VERY IMPORTANT. HE SUGGESTED THAT, BEFORE WORKING OUT A CONCRETE FORMULA, NEITHER SIDE SHOULD DO ANYTHING WHICH COULD HARM THE PROSPERITY OF HONG KONG. THE LPS AGREED AND SAID THAT IN FACT THE ACTIONS OF THE TWO SIDES SHOULD BE SUCH AS TO BOLSTER CONFIDENCE. BOTH HAD A COMMON INTEREST IN PROMOTING CONFIDENCE IN HONG KONG AND HELPING TO INCREASE IT.

7. PREMIER ZHAO SAID THAT HE HAD NOT YET HAD A DETAILED REPORT OF THE GOVERNOR'S VISIT TO SHENZHEN BUT HE HAD HEARD THAT THE GOVERNOR HAD SAID THAT HE WOULD ENCOURAGE MORE HONG KONG CAPITAL INVESTMENT IN SHENZHEN. HE APPRECIATED THE GOVERNOR'S APPROACH. THE LPS REMARKED THAT THE GOVERNOR HAD HMG'S SUPPORT ON THIS.

8. BEFORE THE MEETING ENDED PREMIER ZHAO AGREED THAT IN TALKING TO THE PRESS THE LPS COULD USE WORDS TO THE EFFECT THAT THE LPS'S UNDERSTANDING OF THE CHINESE GOVERNMENT'S POSITION WAS THAT, WHEN THEY CAME TO ADDRESS THEMSELVES TO THE QUESTION OF THE FUTURE OF HONG KONG THEY WOULD TAKE INTO CONSIDERATION THE PROSPERITY OF HONG KONG AS A FREE PORT AND A COMMERCIAL AND FINANCIAL CENTRE.

9. AGREED RECORDS OF THIS AND THE MEETING WITH JI PENGFEI ARE WITH THE LPS'S PARTY IN HONG KONG AND WILL BE DISTRIBUTED FROM THERE.

10. COMMENTS FOLLOW.

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AFM PEKING 120730Z JAN 82

TO PRIORITY F C O

TELNO 22 OF 12 JANUARY

INFO HONG KONG (PERSONAL FOR GOVERNOR).

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MY TELNOS 17 AND 18

LPS VISIT: FUTURE OF HONG KONG

1. THESE WERE TWO USEFUL DISCUSSIONS AND REVEAL THAT SOME FRESH THINKING HAS BEEN DONE BY THE CHINESE SINCE YOUR VISIT LAST YEAR AND SINCE OUR LAST EXCHANGE WITH THE CHINESE ON THIS SUBJECT IN AUGUST 1981, WHEN ASSISTANT FOREIGN MINISTER SONG ZHIGUANG TOLD THE THEN POLITICAL ADVISER THAT THE CHINESE WERE NOT THINKING ABOUT THE PROBLEM (WILSON'S LETTER OF 27 AUGUST TO MCLAREN FED). NEITHER ZHAO NOR JI QUOTED DENG'S EARLIER "HEARTS AT EASE" STATEMENTS AND THEIR REMARKS APPEAR TO REFLECT A REALISATION THAT DENG'S ASSURANCES ARE NOT ENOUGH BY THEMSELVES.

2. JI SAID THAT THE CHINESE WOULD BE THINKING ABOUT THE QUESTION OF THE FUTURE SOON. BOTH HE AND ZHAO SAID THAT THE MATTER COULD NOT WAIT UNTIL 1997. BOTH MEN SPOKE OF TALKS BETWEEN THE TWO SIDES (THOUGH SEE PARA 5 BELOW). ZHAO VOLUNTEERED A REFERENCE TO THE CONCERN OF LAND-OWNERS IN HONG KONG AND SAID THAT, PENDING A SOLUTION OF THE PROBLEM, NEITHER SIDE SHOULD DO ANYTHING TO DAMAGE PROSPERITY THERE. HE ADDED THAT HONG KONG'S PROSPERITY DEPENDED UPON ITS STATUS AS A FREE PORT AND A COMMERCIAL AND FINANCIAL CENTRE.

3. THE POINTS IN PARAGRAPHS 1-2 ABOVE ARE POSITIVE AND, AS FAR AS THEY GO, ENCOURAGING. BUT, THE CHINESE HAVE CLEARLY NOT FULLY UNDERSTOOD THE CONCEPT, OR THE BASIS, OF INVESTOR CONFIDENCE. FOR EXAMPLE, JI SPOKE OF CHINESE LIBERAL POLICIES IN THE SPECIAL ECONOMIC ZONES (WHICH ZHAO ALSO REFERRED TO AS "RELEVANT" TO THE HONG KONG PROBLEM) AS A FACTOR WHICH SHOULD GIVE REASSURANCE TO HONG KONG INVESTORS. THE CHINESE MAY STILL HARBOUR THE HOPE THAT THE DEVELOPMENT OF THE SHUMCHUN ZONE MAY IN SOME WAY GET THEM ROUND THE PROBLEM. BUT HONG KONG INVESTORS WILL NEED MUCH GREATER REASSURANCE THAN THIS. ZHAO CAME CLOSER TO AN UNDERSTANDING OF THE CONFIDENCE ISSUE WHEN HE SPOKE OF THE IMPORTANCE OF HONG KONG'S STATUS AS A FREE PORT. BUT ALL THE EVIDENCE SO FAR SUGGESTS THAT THE CHINESE HAVE NOT GRASPED THE ESSENTIAL FACT THAT IT IS CONTINUED BRITISH ADMINISTRATION THAT IS NEEDED TO MAINTAIN CONFIDENCE. BOTH JI AND ZHAO USED WORDS WHICH SUGGESTED THAT ASSURANCES TO INVESTORS WITHIN A FRAMEWORK OF RESUMED CHINESE ADMINISTRATIVE CONTROL OUGHT TO SUFFICE.

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4. THE SECOND WORRYING ELEMENT IS, THAT ALTHOUGH THERE HAS BEEN SOME MOVEMENT THANKS TO OUR PRESSURE, THE CHINESE ARE STILL APPROACHING THE HONG KONG QUESTION IN A SOMEWHAT LEISURELY FASHION. THEY REPEATEDLY SAID THAT THERE WERE STILL MORE THAN 15 YEARS TO GO. THE FACT THAT CONFIDENCE COULD SLIDE, AND SLIDE SUDDENLY, WITHIN A FEW YEARS, AND THAT BOTH SIDES SHOULD THEREFORE PREPARE FOR SUCH AN EVENTUALITY AS SOON AS POSSIBLE, HAS NOT YET STRUCK HOME.

5. I AM ALSO NOT ENTIRELY HAPPY WITH ZHAO'S REFERENCE TO CONSULTING "VARIOUS CIRCLES" IN HONG KONG AND THE BRITISH SIDE ABOUT THE FUTURE, AND TAKING HEED OF THEIR VIEWS. THE LANGUAGE USED DOES NOT PRECLUDE THE POSSIBILITY THAT CHINA WOULD MERELY NOTE THE OPINIONS OF OTHERS BEFORE DECIDING WHAT TO DO, RATHER THAN NEGOTIATE A SETTLEMENT.

6. THE FIRST OF THE TWO ELEMENTS OF CHINA'S "GENERAL STAND" AS SPELLED OUT BY ZHAO (PARA 1 OF SECOND TUR), REAFFIRMS WHAT WE ALREADY KNOW, I.E. THAT THE KEY ISSUE, IF AND WHEN WE DO GET DOWN TO RESOLVING THE PROBLEM WITH THE CHINESE, WILL BE SOVEREIGNTY. ZHAO'S EXPLICIT REFERENCE TO THE NINE-POINT PROPOSAL ON TAIWAN, WHICH ECHOED DENG'S REMARK TO YOU IN APRIL 1981 THAT "WHEN BRITAIN CONSIDERS THE QUESTION (OF HONG KONG) IT SHOULD STUDY CHINA'S POLICIES TOWARDS TAIWAN", REINFORCES THE POINT. WHATEVER ARRANGEMENTS EVENTUALLY PROVE ACCEPTABLE TO THE CHINESE, A CESSION OF SOVEREIGNTY ON OUR PART WILL BE REQUIRED SEMICOLON THOUGH WITHIN THAT FRAMEWORK THE CHINESE MIGHT PROVE THEMSELVES, AS ZHOU HAS CLAIMED, "VERY REASONABLE".

7. AS FAR AS FUTURE POLICY IS CONCERNED, AS SEEN FROM HERE, FOUR MAIN POINTS EMERGE:

- A. A WILLINGNESS TO CEDE SOVEREIGNTY OVER KOWLOON AND HONG KONG ISLAND (ON SUITABLE TERMS) WILL BE ESSENTIAL TO AN SATISFACTORY SETTLEMENT SEMICOLON
- B. WE MUST MAKE EVERY EFFORT TO EDUCATE THE CHINESE AS TO WHAT THE CONCEPT OF "INVESTOR CONFIDENCE" INVOLVES SEMICOLON
- C. WE SHOULD IMPRESS UPON THEM THAT, ALTHOUGH 1997 IS STILL 15 YEARS AWAY, ITS EFFECTS WILL BE FELT MUCH SOONER, PROBABLY WITHIN THREE YEARS FROM NOW, UNLESS WE TAKE STEPS TO AVERT THEM SEMICOLON
- D. BUILDING ON CHINESE REFERENCES, WE SHOULD DURING THE PRIME MINISTER'S VISIT WELCOME THE SUGGESTION OF BILATERAL TALKS AND SEEK TO HAVE THEM SOON. OTHERWISE THE RISK IS THAT WE SHALL EITHER BE REDUCED TO A CONSULTATIVE ROLE AND THE PRESENTED WITH CUT AND DRIED SOLUTION, OR THAT WE SHALL HAVE TO TRY TO NEGOTIATE IN EMERGENCY CONDITIONS CREATED BY A SUDDEN SLIDE IN CONFIDENCE.

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FM HONG KONG 120245Z JAN 82

TO PRIORITY FCO

TELEGRAM NUMBER 30 OF 12 JANUARY

INFO PRIORITY PEKING

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FILE

MYTELNO 1130 PARA 12: PAO AND THE FUTURE OF HONGKONG.

1. PAO HAS NOW TOLD ME THAT HE SAW GU MU AND HUANG HUA TOGETHER IN TOKYO. THEY REPEATED COMMENTS MADE IN PEKING ABOUT SINO/US RELATIONS ('A BOMB THAT COULD GO OFF' -HUANG), AND CHINESE WILLINGNESS TO EXPAND ORDERS FROM THE UK IN RETURN FOR A LOAN (1 BILLION US DOLLARS - GU MU)
2. GU MU SAID HE HAD BEEN THINKING OVER PAO'S REMARKS ABOUT HONG KONG AND AGREED THAT SOME SOLUTION MUST BE FOUND BUT THE QUESTION OF SOVEREIGNTY WAS ALL IMPORTANT. HUANG HUA SAID 'IT IS FOR THE BRITISH NOT US TO SUGGEST A SOLUTION , BUT LET THEM MAKE SEVERAL SUGGESTIONS NOT JUST ONE'
3. PAO STILL THINKS THE REFERENCES TO THE FUTURE OF HONG KONG ARE RELATED TO PROPOSALS FOR TRADE AND A LOAN, AND TO DISENCHANTMENT WITH THE U S
4. HE CLAIMED THEY ASKED HIM TO ACT AS INTERMEDIARY, TO SPEAK TO THE P.M., AND LET THEM HAVE SUGGESTIONS. HE COMMENTED THAT DENG'S POSITION WAS FAR SHORT OF SECURE AND SO ANY SUGGESTIONS MUST TAKE ACCOUNT OF THIS.
5. I DID NOT COMMENT, BUT IT WOULD BE HELPFUL TO KNOW HOW MUCH THE ABOVE COINCIDES WITH WHAT HE SAID TO THE P.M.
6. HE WILL PROBABLY BE VISITING PEKING AGAIN IN MID FEBRUARY.
7. PEOPLE LIKE PAO WHO HAVE ACCESS TO THE LEADERSHIP AND CAN SPEAK DIRECTLY AND INFORMALLY WITHOUT ANYONE BEING COMMITTED HAVE A USEFUL PART TO PLAY. CERTAINLY TTHEY HAVE HELPED TO BRING HOME TO THE CHINESE THE REALITY OF THE PROBLEM DESCRIBED THROUGH OFFICIAL CHANNELS, AND I HAVE ENCOURAGED THEM TO DO SO. THEY MAY EVEN BE ABLE TO THROW SOME LIGHT ON CHINESE VIEWS ON A SOLUTION IF THESE DEVELOP. SO WE MUST KEEP IN CLOSE TOUCH WITH THEM
8. BUT I SUGGEST WE MUST BE CAREFUL NOT TO GIVE THE IMPRESSION THAT ONE OF THEM IS A CHOSEN VESSEL (PAO WILL CLAIM TO BE IN ANY CASE). SIR Y K KAN WILL BE PAYING ANOTHER PRIVATE VISIT TO PEKING AT THE END OF APRIL, AND NEARER THE TIME WE SHALL CONSIDER HOW TO MAKE SURE HE CAN CROSS CHECK ON PAO'S INFORMATION.

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PS
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HKKO91/1

Current Hong Kong - China Economic Developments: Monthly Notes:
August 1981

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Visit to Shenzhen by the Chinese Prime Minister

Between 15 and 18 August the left-wing Hong Kong newspaper "Wen Wei Po" gave exclusive coverage (with photographs) of a visit by the Chinese Prime Minister, Zhao Ziyang, to the Special Economic Zone (SEZ) at Shenzhen.

2. Zhao arrived in Guangzhou from Singapore on the evening of 13 August and the next morning took the train south for a two-day inspection tour of Shenzhen. He travelled the length of the SEZ from Shatoujiao (Sha Tau Kok) in the east, to Shekou Special Industrial Zone (a "zone within a zone") on Deep Bay. Apart from visits to two holiday resorts at the Xili Reservoir and at Xiaomeisha, he also went to the border crossing points at Wenjindu (Man Kam To) and Luohu (Lo Wu). He left Shekou by sea on the morning of 16 August for a similar inspection tour of Zhuhai SEZ (north of Macau). He was accompanied throughout by Provincial Party First Secretary Ren Zhongyi, Governor Liu Tianfu, Vice-Governor Wang Quanguo and the Head of the Provincial Commission of Special Economic Zones, Wu Nansheng, Wang Kuang, First Director of the Hong Kong Branch of NCNA also joined the Premier's party.

3. The visit comes at a time of apparently heightened interest by the central leadership in the SEZ experiment. A high-level conference was held in Peking at the end of June which discussed current policies towards the zones. This meeting considered a number of policy initiatives aimed at accelerating the pace of development according to the dictum ascribed to Deng Xiaoping that the SEZs "should be really special." It also considered a list of new regulations affecting the SEZs.

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4. It is interesting that Zhao chose to inspect the two SEZs on his way home from the visit to Singapore - a part of the world where similar experiments with "export processing zones" seem to have met with some success. According to Wen Wei Po's reports of the inspection tour, Zhao impressed upon officials in Shenzhen the importance of the division of labour between officialdom and the business world. The latter he said should be encouraged to run more undertakings themselves. He also urged wage reforms for workers in the zones, according to "economic laws" rather than an "iron rice bowl" mentality.

5. It seems, therefore, that Zhao sought to shake up the local bureaucracy by explicitly suggesting that factory managers and traders should be given greater freedom to make decisions free of official interference. Similarly, wage reform, together with a greater freedom for factory managers to hire and fire their own workers, will be welcomed by Hong Kong and overseas Chinese investors in the zone. In any event, a visit by the Premier will have provided a tremendous fillip for those responsible for the zone and it seems clear that whatever Zhao said during his inspection tour his word will be acted upon both swiftly and thoroughly.

New 10-point programme for the SEZs

6. A major policy statement regarding the future development of Guangdong and Fujian's Special Economic Zones has been widely predicted since the central leadership meeting on the subject at the end of June (see Monthly Notes: June and July). At the conclusion of Prime Minister Zhao Ziyang's visit to Shenzhen, such a statement was published in the Hong Kong communist press in the form of a 10-point programme. The following points of interest emerge from the 10 policy objectives:

/(a) ...

- 3 -

- (a) a distinction has now been drawn between the status given to Shenzhen and Zhuhai (as "multi-purpose" special zones) and Xiamen and Shantou (export processing and tourism);
- (b) the demarkation of the boundaries of the SEZs (specially the northern boundary of Shenzhen) seems certain now to be implemented. The aim will be to check not only the movement of people but also the movement of goods which have been imported into the SEZs tax free;
- (c) simplified immigration procedures represent part of the effort to attract foreign and overseas Chinese businessmen to visit the SEZs more frequently. Relaxation, however, will be limited to the granting of multiple entry visas valid for one year;
- (d) changes in the terms and conditions of employment in the SEZs will give enterprises the right to hire and fire labour and to introduce competitive wage rates;
- (e) Generally speaking, production should remain in the hands of state enterprises, whether or not in partnership with foreign investors. At the same time partnerships between the SEZ authorities and foreign investors will also be permitted. Although most of the funds for investment will come from abroad, the state seems prepared to continue to fund development through the controlled allocation of loans. In any event, enterprises (including public utilities) will be solely responsible for their own profits or losses;

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- 4 -

(f) although it is noted that foreign currency (i.e. the Hong Kong dollar) has already started to circulate in the zones, the Chinese are apparently studying the possibility of a special currency for Shenzhen. However, it seems likely that the Hong Kong dollar will continue to circulate whether the official currency is the Renminbi or a special one. The projected opening of Hong Kong registered banks in the zones can only contribute to this tendency.

7. The detailed laws and regulations based on these policy objectives have still to be drafted. Nevertheless, the heightened interest in SEZs demonstrated by all levels of the Chinese leadership - the meeting in Peking in June, Zhao Ziyang's inspection tour and the attention paid to this new 10-point programme - suggests that these will be interesting and innovative times for the SEZs.

Nanyang Commercial Bank to open branch office in Shenzhen

8. The first of the Hong Kong banks to establish an office in Shenzhen (see above paragraph (f)) will be the Nanyang Commercial Bank, according to its general manager Yeung Wah-on on 18 August. The Nanyang is a PRC state-controlled foreign exchange bank incorporated in Hong Kong and a natural choice by the Shenzhen authorities to lead the way for other Hong Kong-registered banks. The Nanyang is expected to open its branch in the SEZ before the end of this year. However, the bank has yet to find accommodation in the commercial area of Shenzhen. The bank will initially transfer staff from Hong Kong to work in Shenzhen, although plans ultimately to recruit locally.