

SECRET

FM HONG KONG 271120Z SEP 83

TO FLASH UKMIS NEW YORK

TELEGRAM NUMBER 12 OF 27 SEPTEMBER

AND TO IMMEDIATE OTTAWA (FOR PS TO PM), FCO, PEKING

FOLLOWING FOR PRIVATE SECRETARY TO SECRETARY OF STATE.

UKMIS TELNO 5 TO HONG KONG: BILATERAL MEETING WITH CHINESE FOREIGN MINISTER.

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SECRET

IN

ACTION COPY

P.N. has seen

WJ 29/9

1. WE HAVE REPEATEDLY EXPLAINED TO THE CHINESE IN THE TALKS IN PEKING THAT THE FOREIGN EXCHANGE RESERVES ARE FULLY UNDER THE CONTROL OF THE HONG KONG GOVERNMENT AND ARE USED SOLELY FOR PUBLIC PURPOSES IN HONG KONG. IN FACT (THOUGH THIS SHOULD NOT BE DISCLOSED TO THE CHINESE FOREIGN MINISTER) ONLY ABOUT 6 PERCENT OF THE RESERVES ARE HELD IN STERLING AND MARKET RATES OF INTEREST ARE PAID ON THEM. OUR PUBLIC POSITION IS THAT THE STERLING ELEMENT OF THE RESERVES IS SIGNIFICANTLY LESS THAN 10 PERCENT.
2. THE TOTAL OF FOREIGN EXCHANGE RESERVES CURRENTLY STANDS AT ABOUT US DOLLARS 5.6 BILLION. THE EXCHANGE FUND HAS EXPENDED SOME US DOLLARS 800 MILLION OVER THE PAST 12 MONTHS IN INTERVENTION TO SMOOTH OUT EXCHANGE RATE FLUCTUATIONS. OVER US DOLLARS 200 MILLION OF THIS HAS BEEN COMMITTED SINCE THE BEGINNING OF SEPTEMBER, INCLUDING US DOLLARS 90 MILLION IN THE PAST WEEK. THESE FIGURES SHOULD NOT BE USED PUBLICLY OR WITH WU. BUT THE SECRETARY OF STATE MAY WISH TO SAY, IN RESPONSE TO ANY CHARGE THAT WE HAVE BEEN NEGLECTING OUR RESPONSIBILITIES TO SUPPORT THE HONG KONG DOLLAR, THAT WE HAVE IN FACT BEEN INTERVENING ON THE MARKET. BUT INTERVENTION AND TECHNICAL MEASURES WITHING THE FLOATING EXCHANGE RATE FRAMEWORK AS OBSERVED IN HONG KONG AND WESTERN COUNTRIES CANNOT SUSTAIN THE EXCHANGE VALUE OF A CURRENCY AT ANY PARTICULAR RATE IN THE FACE OF MARKET SENTIMENT CAUSED BY ADVERSE POLITICAL FACTORS.

3. THE HONG KONG ASSOCIATION OF BANKS (HKAB) DEPOSIT INTEREST RATES WERE RAISED TWICE DURING APRIL/MAY 1983 BY A TOTAL OF 3 PERCENT. MARKET FORCES LED TO REDUCTIONS DURING THE SUMMER. AGAINST THE BACKGROUND OF THE RECENT DECLINE IN CONFIDENCE THERE WAS A HKAB INCREASE OF ONE AND A HALF PERCENT ON 9 SEPTEMBER, AND A FURTHER 3 PERCENT INCREASE EFFECTIVE TODAY, 27 SEPTEMBER. AGAINST A BACKGROUND OF GENERALLY LOWER INTEREST RATES INTERNATIONALLY, THE BEST LENDING RATE IN HONG KONG IS NOW AT 16 PERCENT, 4 PERCENT HIGHER THAN A YEAR AGO.

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4. AT THE CLOSE OF TRADING IN HONG KONG TODAY THE HONG KONG DOLLAR STOOD AT 8.10 AGAINST THE US DOLLAR AND 12.17 AGAINST THE POUND.

5. AS REGARDS THE OTHER CHARGES MADE BY THE COMMUNIST PRESS IN REACTING TO THE PM'S COMMENTS TO U.S. JOURNALISTS, THE MAIN POINT TO MAKE IS THAT ALL TAXES LEVIED IN HONG KONG, AND ALL OTHER REVENUES RAISED BY THE HONG KONG GOVERNMENT ARE USED IN HONG KONG FOR THE BENEFIT OF THE PEOPLE OF HONG KONG. THE BRITISH GOVERNMENT TAKES NO REVENUE FROM THE TERRITORY. NOR DO BRITISH FIRMS AND BUSINESSMEN ENJOY ANY SPECIAL STATUS IN HONG KONG. THEY COMPETE ON EQUAL TERMS WITH LOCAL AND OTHER OVERSEAS BUSINESSMEN IN WHAT IS PROBABLY THE MOST OPEN MARKET IN THE WORLD.

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