

Monetary Relationship between the Mainland and Hong Kong

The recent 20th anniversary celebrations on the establishment of the HKSAR led me to reflect on the monetary relationship between the Mainland and Hong Kong in the past 20 years. I am actually quite pleased with how well it has developed, so well that I have almost forgotten about the efforts that all concerned had put in over a long period before the Handover in 1997 to ensure such outcome.

These efforts were encapsulated in the “Seven Principles Governing the Monetary Relationship between the Mainland and Hong Kong” spelt out by Chen Yuan, then Deputy Governor of the People’s Bank of China, on a joint roadshow with me, then Chief Executive of the Hong Kong Monetary Authority, that covered London, New York and Tokyo as we turned into 1997. The title of the roadshow was “Hong Kong’s Monetary Arrangements through 1997” and the speeches made were published in three booklets.

The Seven Principles covered:

1. The relationship between the two currencies and between the two monetary systems;
2. The relationship between the two monetary authorities;
3. Cooperation in prudential supervision;
4. People’s Bank of China will support the currency stability of Hong Kong;
5. Treatment of financial business between the Mainland and Hong Kong;
6. The standing of Mainland financial institutions in Hong Kong; and
7. Complementarity between Shanghai and Hong Kong.

Those interested in this aspect of the monetary history of Hong Kong may wish to read those booklets, which should be available in the library of the Hong Kong Monetary Authority open to public. The gist of these principles is that under “one country, two systems” there are two currencies, two monetary systems and two

monetary authorities. Chen Yuan said: “The two monetary systems are of equal importance to China in its reform and liberalization. One does not precede or be subsidiary to the other. They will operate in a mutually independent manner... It follows from the two mutually independent monetary systems of the Mainland and Hong Kong that the two monetary authorities will also be mutually independent.”

These principles have served Hong Kong very well in the past 20 years.

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