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**Sixteenth Issue
(August 2009)**

The HKIMR was established by the Hong Kong Monetary Authority (HKMA) in August 1999 to conduct and support research on issues in monetary policy, banking and finance that are of strategic importance to Hong Kong and the Asian region.

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No.5

Hong Kong Institute for Monetary Research -- *Newsletter*

Announcement: New Director of the HKIMR



Dong He (Director of the Institute) and Joseph Yam (Chief Executive of the HKMA) (From left to right)

Mr. Dong He has been appointed as Executive Director of the Research Department of the HKMA and Director of the Institute to succeed Mr. Hans Genberg, who retired from the Institute in August 2009.

Mr. He, who holds a PhD in Economics from the University of Cambridge, has published research on a wide range of economic matters, particularly macroeconomic and financial market issues in Hong Kong and Mainland China. Before joining the HKMA in August 2004 as a Head (External), Mr. He was a staff member at the International Monetary Fund during 1998-2004 and a staff member at the World Bank during 1993-1998. Mr. He took up the position as Head (Economic Research) in HKMA in May 2006 and was appointed to his current position in August 2009.

Remarks by the Director

I took over from Hans Genberg as the Director of the Institute on 7 August, as Hans retired from the Hong Kong Monetary Authority (HKMA) after serving as the Executive Director (Research) since February 2005. For those of you who know Hans, you will agree with me that Hans is a true gentleman: upright, gracious and unassuming. In the past three years, as Head (Economic Research) at the HKMA, and a Board member and a member of the Council of Advisors of the HKIMR, I benefited tremendously from Hans's advice and enjoyed many long conversations with him on many economic issues, ranging from the currency board system in Hong Kong, the strength and weakness of DSGE models, to monetary cooperation in the Asia-Pacific region. Although Hans has left HKMA/HKIMR, he will still be in Hong Kong and we look forward to his continued support.

The Institute has grown significantly in the past several years. The Visiting Research Fellowship programme has continued to attract world-class scholars, and the newly introduced Visiting Postdoctoral Researcher programme and the Doctoral Internship programme have proved very popular. The seminar series is now one of the best seminar programmes in the field of macro and

Remarks by the Director

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financial economics in Hong Kong. The HKMA has also agreed to second two managers to the Institute in order to gradually build up our in-house research capacity. Once on board, these two managers will be able to collaborate with Visiting Research Fellows on research projects in the fields of monetary policy, banking and finance that are of strategic importance to Hong Kong and the Asia region.

This is an exciting time to do macroeconomic and financial market research in Hong Kong, Asia's World City. As the world economy recovers from the global financial crisis of 2007-2009, policy makers and researchers will need to critically review the analytical and policy frameworks for maintaining monetary and financial stability. The Institute is well positioned to bring an Asian perspective to such a global effort. At the same time, the continued emergence of Mainland China as a major global economic power has raised a great deal of interest in China research. In this respect, Hong Kong is uniquely positioned to be a focal point for understanding China: economic researchers in Hong Kong speak the same language as mainstream international economists but also have a natural advantage in communicating with economists and policy makers on the Mainland.

I look forward to your continued support for the Institute and its activities. We have planned for a number of events in the period ahead, including the summer workshop, which will take place on 26 August and will have a focus on the global financial crisis, the 7th HKIMR China workshop, which will take place in November and will have "Macroeconomic Statistics in China" as its theme, and the first HKIMR Annual International Conference on the Chinese Economy, which will take place during 11-12 January 2010. (Please see the "call for papers" included in this newsletter.) An international conference on stress tests and other macro-prudential tools is also being considered. If you have other ideas and suggestions for activities at the Institute, I would love to hear from you.



Dong He (left) presenting a souvenir to Hans Genberg (right) during the farewell lunch

Conference on the Global Financial Turmoil and the Evolving Financial Interdependence in Asia



Conference panel discussion session at the HKIMR. (Robert Pringle, Martin Wheatley, Charles Calomiris, Alicia Garcia-Herrero and James Barth) (From left to right)

The HKIMR, Columbia University and Lingnan University co-organised a two-day conference entitled "The Global Financial Turmoil and the Evolving Financial Interdependence in Asia" on 11 and 12 May 2009 in Hong Kong.

This two-day conference consisted of four sessions. The first two sessions on the first day were held on the campus of Lingnan University in Tuen Mun. Six papers were presented on topics ranging from financial market interactions to the link between FX swaps and currency strength during the credit crisis of 2007-2008. The last two sessions were held on the second day at the HKIMR. Three papers were presented in the third session by Eric van Wincoop (University of Virginia), Chen Lin (City University of Hong Kong) and David Parsley (Vanderbilt University). The last session was a panel discussion session entitled "Towards a New Framework for Financial Stability". Robert Pringle (Chairman of Central Banking Publications) acted as the moderator and the panelists included James Barth (Auburn University), Charles Calomiris (Columbia Business School), Alicia Garcia-Herrero (Banco Bilbao Vizcaya Argentaria) and Martin Wheatley (Securities and Futures Commission).

Farewell Remarks from Hans Genberg

My term as Director of the HKIMR came to an end last August 6 after four and a half remarkable years. As I look back on these years I can truly say it has been a most rewarding experience. During this time the visiting fellows programme has attracted first-rate scholars from around the world, and I have gained a great deal both professionally and personally from the opportunity to interact with them in the office, in seminars, and on research projects.

The Institute has also been fortunate by being able to collaborate with academic institutions in Hong Kong as well as with the staff of the BIS and IMF offices here. This collaboration has made possible the joint organisation of conferences and seminars which have brought together researchers from around the globe to present and discuss state-of-the-art research on such wide-ranging topics as global imbalances, monetary



Joseph Yam (left) and Hans Genberg (right)



Mr and Mrs Genberg

policy frameworks in Asia, the microstructure of foreign exchange markets and the history of the monetary and exchange rate system in Hong Kong.

The HKIMR is now a significant contributor to economic research in Asia and about Asia. I am certain that under the leadership of my successor Dong He this role will expand further especially given his own extensive knowledge about the region in general and Mainland China in particular. The recently introduced visiting programmes for post-doctoral scholars and PhD interns as well as the addition of two in-house researchers should also ensure that the Institute will benefit from the research talent of a new generation of scholars.

In leaving my post I want to thank all those who have made the task of the Director so much easier than it would have been without their help. The list is long but I would like to single out Matthew, Hongyi, Kenneth, Patrick, and Cathy from the Institute staff and Rita, my secretary at the HKMA, for their valuable assistance.

Although I have now left the HKIMR, I am very happy to report that I will continue to live and work in Hong Kong. It is a great city in a most fascinating part of the world. Staying here also means that I will continue to benefit from the activities of the HKIMR as my new office at the BIS office in Hong Kong, which I have just joined as a Visiting Adviser, is just one floor down from the Institute in the Two IFC building. Finally I hope that all the friends I have made through the Institute over the years will continue to keep in touch. My new email address is hans.genberg@bis.org.

20th Annual East Asian Seminar on Economics (EASE) – Commodity Prices and Markets

The HKIMR, the Hong Kong University of Science and Technology (HKUST), the National Bureau of Economic Research (NBER) and other Asian research institutions jointly organised a conference on commodity prices and markets on 26 and 27 June 2009 in Hong Kong.



John Tsang (Financial Secretary of the Hong Kong SAR Government) delivering a keynote speech during the conference dinner

The EASE is an annual conference, with participants from the leading research institutions in East Asia, Australia and the United States. A total of ten papers were presented in three sessions by scholars from the University of Chicago, University of Texas at San Antonio, Vanderbilt University, Korea Development Institute, and Hitotsubashi University, etc. These three sessions dealt with a wide range of issues associated with commodity prices, exchange rates, ocean freight, inflation and monetary policy. Both speakers and guests actively participated in the conference. In addition, Financial Secretary of the Hong Kong SAR Government, John Tsang, delivered a keynote speech during the conference dinner at the American Club Hong Kong.



Conference participants



Discussion during the conference dinner

Tsinghua – Columbia Workshop in International Economics 2009

The Institute and the European Central Bank (ECB) co-sponsored the Tsinghua – Columbia Workshop in International Economics 2009. The theme of this workshop was “The Global Crisis and Reforms of International Financial Architecture”, which was co-organised by Tsinghua University and Columbia University on 26 and 27 June 2009 in Beijing.

The workshop was divided into three sessions with three papers being presented in each session. The sessions dealt with: i) cyclical, crisis, and corrective actions, ii) regional and global linkages in crisis and tranquil times, iii) crisis and cross-border investment. In addition, there was a panel discussion entitled “The Global Crisis, Global Reforms and the Role of China” after the third session. The panel discussants included David Dollar (The World Bank), Takeo Hoshi (University of California, San Diego) and Beatrice Weder di Mauro (University of Mainz).

After the workshop, an outdoor activity of hiking the Great Wall was organised for the participants, which marked the successful completion of this workshop.



Dong He (HKMA and HKIMR) discussing the paper by Takeo Hoshi (UCSD)

Visiting Fellow – Isaac Ehrlich



Hongyi Chen (HKIMR) and Isaac Ehrlich (State University of New York at Buffalo) (From left to right)

“The HKIMR is a wonderful place to work, and I am a workaholic. My stay enabled me to write 4 papers, including a keynote address at the Asian Law and Economics Society in Seoul Korea.”

My visit at the HKIMR gave me a unique opportunity to learn much more than I knew about Hong Kong’s research community and to forge new personal and professional relationships. The HKIMR is a wonderful place to work, and I am a workaholic. My stay enabled me to write 4 papers, including a keynote address at the Asian Law and Economics Society in Seoul Korea; put together a conference on New Directions in the Economic Analysis of Education next fall in Chicago, co-sponsored by the new Milton Friedman Institute; organize a just-approved session on a similar topic in the upcoming meeting of the American Economic Association, which will appear in the AER Papers and Proceedings; and edit 2 issues of the *Journal of Human Capital* (JHC).

All of these, however, were a side show for my main endeavor - working on a paper on “The Role of Knowledge and Human Capital in Imperfectly Informed Financial Markets”, joint with Jong Kook Shin. This is an exciting new area of research not just in the economics of human capital but also in financial and international economics. The unique feature of the approach is that it does not take for granted the informational efficiency of financial markets, but seeks to explain it as an endogenous outcome of “specific” and “general” human capital endowments of agents operating in these markets.

The role of private information in financial markets, a much overlooked issue in standard finance models, has recently gained some attention by other economists as well. During my stay at the HKIMR I had an opportunity to listen to, and interact with, a talented group of scholars dealing with specific characteristics of currency and financial markets ascribed to private information, and their behavior during the current financial meltdown and global economic contraction. This interaction produced tangible benefits for my work, as many of the stylized facts and findings discussed by these scholars, ranging from the “disconnect” in different currency markets, to the pattern of volatility contagion and flight for safety revealed in financial markets during the ongoing financial crisis, can be explained by treating the information content of home asset prices as endogenous outcomes of underlying, measurable factors. Indeed, it is the exposition to new ideas and the opportunity to interact with creative researchers which is the ultimate test of a good research environment. On this score, the HKIMR merits very high praise.

The HKIMR also offers one of the most exciting views of the southern parts of Hong Kong and its surrounding islands, and its central location allows an easy approach to nearby fabulous culinary establishments. Lovers of Asian cuisines would have a field day working in this location. I would like to thank Hans Genberg, Dong He, and Hongyi Chen for inviting me to be part of the HKIMR this year. I am already looking forward to my next visit.

Isaac Ehrlich is SUNY Distinguished Professor of Economics and Melvin H. Baker Professor of American Enterprise at the State University of New York at Buffalo, and a Research Associate at the National Bureau of Economic Research. He is also the editor-in-chief of the Journal of Human Capital – the latest addition to the University of Chicago Press family of economics journals. He spent 10 weeks as a Visiting fellow at the Hong Kong Monetary Authority from late April to early July 2009. While this is his first visit to the HKIMR, he is not a stranger to Hong Kong. He spent the academic years 2002-03 and 2003-04 at the Hong Kong University of Science and Technology as one of the founders of the School of Business and Management, where he served as unofficial Chair of its Personnel Committee and the Economics Department, and founded its Center for Economic Development. He also served on the Hong Kong Government’s Health Services Committee, chaired by the Hon. Elizabeth Wong, then Secretary of Health and Human Services. Isaac has visited Hong Kong almost yearly as a guest speaker at most of Hong Kong’s academic institutions.



HKIMR Occasional Paper No.5

The Institute has published its fifth Occasional Paper entitled “Leverage, Securitization and Global Imbalances” written by Hyun Song Shin (Princeton University).

The HKIMR’s Occasional Paper series aims to disseminate policy-relevant analysis by prominent economists, and is geared to senior policy makers. “Leverage, Securitization and Global Imbalances” explores the role played by securitization in increasing the leverage of the US financial system as a whole, and the loosening of credit standards. The relationship between the increased leverage and the US current account deficit is also discussed.

The full text and the summary of this paper are available on our website.

http://www.hkimr.org/occasional_papers.asp



Upcoming Activities

Call for Papers: Conference on China and the Global Economy: Macro, Trade and Financial Linkages

The HKIMR will hold its Annual International Conference on the Chinese Economy in Hong Kong on January 11-12, 2010.

The conference is intended to provide a forum for academics, policy makers and business economists to discuss important analytical and policy issues related to the Chinese economy. The theme of this year’s conference is **China and the Global Economy: Macro, Trade and Financial Linkages**. Possible topics include (but are not restricted to):

- o China’s growth performance and medium-term prospects
- o Monetary and fiscal policies in China
- o China’s trade and financial integration with the world economy
- o Financial system reform in China
- o RMB’s role in the international monetary system
- o Hong Kong’s role in China’s integration with the world economy

Papers that do not fit into these categories, but that are related to the main theme of the conference, are also welcome.

Interested contributors should submit a draft paper (in a Word or PDF file) to the HKIMR by **October 15, 2009** via e-mail to hkimr@hkma.gov.hk. Please use the contact author’s name as the name of the file. The HKIMR will select the papers based on originality, analytical rigor, and policy relevance and will contact the authors whose papers have been selected and announce the final program by **November 13, 2009**. Presenters will be reimbursed for travel expenses and accommodation. For further information, please contact Kenneth Chow at kkochow@hkma.gov.hk or visit the HKIMR website <http://www.hkimr.org>.

The Seventh HKIMR Summer Workshop

The HKIMR is organising the seventh summer workshop on 26 August 2009. The objective of this workshop is to bring together scholars, central bankers and market practitioners to discuss current economic and financial issues. Four papers will be presented in this workshop covering issues on financial deleveraging and the international transmission of shocks, the effects of the US credit crisis on the Asia-Pacific economies, and the liquidity freeze during the financial crisis.



The Sixth HKIMR Summer Workshop in 2008

Upcoming Visiting Fellows and Seminars

7 – 18 September

Joshua Aizenman (University of California, Santa Cruz)

14 September – 9 October

Mathias Hoffmann (University of Zurich)

2 – 6 November, 7 – 18 December

Shang-Jin Wei (Columbia University)

30 November – 25 December

Yin-Wong Cheung (University of California, Santa Cruz)

28 August 2009 *Exchange Rate*

Predictability and the Performance of Currency Hedge Funds – Giorgio Valente (University of Leicester)

11 September 2009 *TBA* – Les Oxley

(University of Canterbury)

Deadline for Visiting Research Fellowship Applications

The Council of Advisors reviews proposals four times a year. The deadline for the next round of applications is *30 September 2009*.

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Kenneth Chow

Assistant Officer:
Patrick Yu

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Recent HKIMR Working Papers

No.16/2009 “*Honor Thy Creditors Beforan Thy Shareholders: Are the Profits of Chinese State-Owned Enterprises Real?*” by Giovanni Ferri and Li-Gang Liu

No.17/2009 “*The Empirics of China’s Outward Direct Investment*” by Yin-Wong Cheung and XingWang Qian

No.18/2009 “*Renminbi as an International Currency: Potential and Policy Considerations*” by Hongyi Chen, Wensheng Peng and Chang Shu

No.19/2009 “*Revisiting the Shocking Aspects of Asian Monetary Unification*” by Hans Genberg and Pierre Siklos

No.20/2009 “*Strict and Flexible Inflation Forecast Targets: An Empirical Investigation*” by Glenn Otto and Graham Voss

No.21/2009 “*A Multiple-Horizon Search for the Role of Trade and Financial Factors in Bilateral Real Exchange Rate Volatility*” by Yin-Wong Cheung and Kon S. Lai

No.22/2009 “*The Empirical Relation between Credit Quality, Recovery, and Correlation*” by Daniel Rösch and Harald Scheule

No.23/2009 “*Structural Change and Counterfactual Inflation-Targeting in Hong Kong*” by Paul McNelis

No.24/2009 “*Bank Competition and International Financial Integration: Evidence Using a New Index*” by Gurnain Kaur Pasricha

No.25/2009 “*Bank Productivity in China 1997-2007: An Exercise in Measurement*” by Kent Matthews and Nina Zhang

No.26/2009 “*Lessons for China from Financial Liberalization in Scandinavia*” by Hongyi Chen, Lars Jonung and Olaf Unteroberdoerster

and more please visit our web site.