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**Seventeenth Issue
(February 2010)**

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.

Highlights of this issue:

Announcement: New
Chairman of the Board of
Directors

First Annual International
Conference on the Chinese
Economy

Visiting Fellow – Shang-Jin
Wei

Conference on Global and
Regional Financial Market
Integration

The Seventh HKIMR
Conference on the
Mainland Economy

The Seventh HKIMR
Summer Workshop

Hong Kong Institute for Monetary Research -- *Newsletter*

Announcement: New Chairman of the Board of Directors



Norman T. L. Chan
(Chief Executive of the HKMA)

Mr. Norman T. L. Chan, Chief Executive of the HKMA, has been appointed Chairman of the Board of Directors of the HKIMR to succeed Mr. Joseph Yam, who retired in September 2009.

Mr. Norman T. L. Chan was appointed Chief Executive of the HKMA on 1 October 2009. Mr. Chan joined the Hong Kong Government as an Administrative Officer in 1976 and became Deputy Director (Monetary Management) of the Office of the Exchange Fund in 1991. He was appointed Executive Director of the HKMA when it was established in 1993. From 1996 to 2005, Mr. Chan served as Deputy Chief Executive of the HKMA. During his 12 years with the HKMA, Mr. Chan steered a number of major financial policies and initiatives, including the development of Hong Kong's financial infrastructure, the introduction of renminbi banking services in Hong Kong and the financial co-operation among central banks in the Asian region. He played a key role in the Government market operations in 1998 that helped maintain the stability of Hong Kong's financial system.

From December 2005 to June 2007, Mr. Chan was Vice Chairman, Asia of Standard Chartered Bank. Prior to rejoining the HKMA, Mr. Chan was Director of the Chief Executive's Office of the Hong Kong Special Administrative Region Government from July 2007 to July 2009. He was the Founding Chairman of the policy think tank, the Bauhinia Foundation Research Centre, which was established in 2006.

First Annual International Conference on the Chinese Economy

The HKIMR held its First Annual International Conference on the Chinese Economy in Hong Kong on 11 and 12 January 2010. The theme of this year's conference was "China and the Global Economy: Macro, Trade and Financial Linkages".

The HKIMR launched a new annual international conference series on the Chinese economy, which was intended to provide a high quality platform for academics, policy makers and business economists to discuss important analytical and policy issues related to macroeconomic developments in China. The inaugural two-day conference in January 2010 featured speeches by Professor Robert Mundell (Nobel Laureate in Economics (1999), Columbia University), Professor Lawrence J. Lau (President and Vice-Chancellor of The Chinese University of Hong Kong) and Dr. Dong He (Executive Director (Research) of the HKMA and Director of the HKIMR).

In addition to the featured speeches, the conference consisted of four sessions. In the first session, Dennis Tao Yang (The Chinese University of Hong Kong) presented his paper entitled "Life Cycle Earnings and the Household Saving Puzzle in a Fast-Growing Economy" and Hongbin Li (Tsinghua University) gave a presentation of his paper "Income Inequality, Social Status, and Household Saving and Consumption in China". In the second session, Zhiwei Zhang (HKMA) presented his paper entitled "Asia's Vertical Trade Integration, Exchange Rate, and China's Export Dynamics" and Shaghil Ahmed (Board of Governors of the Federal Reserve System) presented his paper entitled "Are Chinese Exports Sensitive to Changes in the Exchange Rate?". This session ended with a paper presented by Anton Korinek (University of Maryland) entitled "Real Exchange Rate Undervaluation: Static Losses, Dynamic Gains".

The third session on the second day began with the presentation of "The Sexual Foundations of Economic Growth: Evidence from China" by Shang-Jin Wei (Columbia University). After that, Yu Sheng (Australia National University) delivered a presentation on the topic "Productivity Spillovers from Foreign Direct Investment: Evidence from Firm-Level Data in China" and Alex Ho (HKMA) discussed his paper entitled "Intra-national Consumption Risk Sharing in China". The last session included a paper entitled "China's Industrial Structure and its Changes in Recent Years: An Analysis of the 1997–2005 Input-Output Tables" presented by Satoko Ueyama (Bank of Japan) and a panel discussion. The panelists included Eswar Prasad (Cornell University and Brookings Institution), Andrew Filardo (Bank for International Settlements) and Louis Kuijs (World Bank). Other paper discussants included Vivek Arora (International Monetary Fund), Hans Genberg (Bank for International Settlements), Zheng Michael Song (Fudan University), Xinpeng Xu (Hong Kong Polytechnic University), and Wenlang Zhang (HKMA).

The conference was well-received and was attended by participants from the academia, the financial services industry, and policy institutions. In addition to paper presenters from the U.S. Federal Reserve and the Bank of Japan, there were also representatives from Reserve Bank of Australia, Central Bank of Brazil, Deutsche Bundesbank, Bank of England, Bank of Korea, Central Bank of Malaysia, Monetary Authority of Singapore, and Bank of Thailand.



Professor Robert Mundell (Columbia University) delivering the opening remarks on the world financial crisis and its implications for China and the international monetary system



Professor Lawrence J. Lau (The Chinese University of Hong Kong) delivering the keynote speech on China's role in the global imbalances



Dr. Dong He (HKMA and HKIMR) delivering the luncheon speech on capital account liberalisation in China



Panelists: Eswar Prasad (Cornell University and Brookings Institution), Andrew Filardo (Bank for International Settlements) and Louis Kuijs (World Bank) (From left to right)



Conference dinner at The Square in Central

Visiting Fellow – Shang-Jin Wei

Shang-Jin Wei is Director of the Chazen Institute of International Business, Professor of Finance and Economics, and N.T. Wang Professor of Chinese Business and Economy at Columbia University. He is a Research Associate in the NBER's International Finance and Macroeconomics and International Trade and Investment programs, and also directs the NBER's Chinese Economy program. When he is not thinking or writing about economics, he likes to read biographies, play with his children, or bike or hike with friends.

The article below is based on his research with Dr. Xiaobo Zhang, and is one of the projects that he has worked on while visiting the HKIMR. The longer version of the research paper can be found at <http://www.nber.org/papers/w15093>.

The Mystery of the Chinese Savings

Much attention has been directed toward China's high savings rate. Not only is the savings rate disproportionately high compared to virtually any other country, but it directly impacts China's current account surplus.

Given its far-reaching effects, both private sector analysts and policy makers have attempted to trace the causes of China's high savings rate and to predict how long it will last. Some have attributed the savings primarily to Chinese corporations. Others point to a precautionary savings motive: because Chinese people are worried about costs of healthcare, education and old-age pensions and are unsure about how much these costs might change over time, they respond by saving more. But these explanations do not tell the whole story, and possibly are not the most important part of the story.

In my recent research paper with Xiaobo Zhang ("The competitive saving motive: evidence from rising sex ratios and savings rates in China."), we hypothesized that an important social phenomenon is the primary driver of the high savings rate: for the last few decades China has experienced a significant rise in the imbalance between the number of male and female children born to its citizens.

While the conventional explanations for the high savings rate all play a role, this new research indicates that those explanations are not as important as people previously thought. While sociologists and other social scientists have looked at the sex ratio imbalance as a social problem, they have not looked at it in relation to the high Chinese savings rate. In addition, as economists and policy makers have looked with concern to the large Chinese current account surplus and large U.S. current account deficit, or global imbalances, much of their discussion has focused on changing exchange rate policy.

However, none of the discussion about global imbalances has brought family planning policy or women's rights to the table, because many do not see these issues as related to economic policy. Our research suggests that this is a serious omission. You can only implement the right policy when you have the appropriate diagnosis, and fruitful policy dialogue has to include discussion of these issues.



"One of the projects I have worked on while visiting the HKIMR is about the mystery of the Chinese savings rate."

Conference on Global and Regional Financial Market Integration



Dr. Srinivasa Madhur (Senior Director and Officer-In-Charge of the ADB)



Dr. Cyn-Young Park
(Principal Economist of the ADB)

Together with the Asian Development Bank (ADB), the HKIMR co-hosted a two-day conference entitled “Global and Regional Financial Market Integration” in Hong Kong on 14 and 15 January 2010.

The conference was divided into five sessions and a total of eleven papers were presented covering various issues including the evolution of regional and global risk sharing, financial market integration, international capital mobility, drivers of the portfolio holdings of Asian investors, financial contagion, and East Asian business cycle. The last session was a panel discussion focusing on the policy implications of global and regional financial market integration. The panelists included Michael B. Devereux (University of British Columbia), Philip R. Lane (Trinity College Dublin), Cyn-Young Park (ADB) and Shang-Jin Wei (Columbia University).



Conference speakers and moderators



Conference participants

The Seventh HKIMR Conference on the Mainland Economy



Dr. Dong He (HKMA and HKIMR) delivering the opening remarks

The HKIMR held a two-day conference on the Mainland economy entitled "Macroeconomic Statistics and Surveillance in Mainland China" on 16 and 17 November 2009. This conference was the seventh of the HKIMR conference series relating to Mainland China.

In this two-day conference, a number of topics were discussed in four sessions including the economic surveillance in China, China labour statistics, methodology on the reconciliation of GDP data, China's balance of payments, international trade statistics, financialisation of commodities, cyclical fluctuations of the Chinese economy, and market perspectives. This conference was attended by over sixty participants from different Mainland institutions, such as The People's Bank of China and Tsinghua University, and investment banks including China International Capital Corporation and Barclays Capital. In addition, Mr. Norman T. L. Chan (Chief Executive of the HKMA) hosted a conference dinner at The Hong Kong Bankers Club on the first day of the conference.



Dr. Wensheng Peng (Barclays Capital)



Discussion during the conference dinner: Mr. Norman T. L. Chan (Chief Executive of the HKMA) and Dr. Tao Zhang (Director General of the Statistics Department of the People's Bank of China) (From left to right)

The Seventh HKIMR Summer Workshop

The HKIMR held the seventh summer workshop on 26 August 2009. The objective of this workshop was to bring together scholars, central bankers and market practitioners to discuss current economic and financial issues. Four papers were presented in this workshop: "Financial Deleveraging and the International Transmission of Shocks" presented by Michael B. Devereux (University of British Columbia), "How Does the US Credit Crisis Affect the Asia-Pacific Economies? - Analysis based on a General Equilibrium Model" presented by Wenlang Zhang (HKMA), "Liquidity, Runs, and Security Design: Lessons from the Collapse of the Auction Rate Municipal Bond Market" presented by Song Han (Federal Reserve Board), and "Liquidity, Risk Appetite and Exchange Rate Movements during the Financial Crisis of 2007-2009" presented by Cho-hoi Hui (HKMA).



Speakers and discussants of the workshop

Upcoming Activities

The Twentieth Annual Asia-Pacific Futures Research Symposium

The HKIMR together with Kent State University and Hong Kong Baptist University is organising the Twentieth Annual Asia-Pacific Futures Research Symposium on 25 and 26 February 2010 at Four Seasons Hotel Hong Kong. The symposium is intended to provide a platform to share and discuss research in the futures market, derivatives and risk management.

Macroeconomic Modelling Seminar

The HKIMR will host the Macroeconomic Modelling Seminar from 15 to 19 March 2010 for research staff from regional central banks. The seminar will invite staff members from the International Monetary Fund (IMF) to give a full week presentation on the Global Integrated Monetary and Fiscal Model (GIMF) and the Global Projection Model (GPM), which are currently the workhorse models at the IMF for analyzing impact and transmission of shocks across economies.

Call for Papers: Conference on Financial Stability: Towards a Macroprudential Approach

The HKIMR and the Bank for International Settlements will co-organise a two-day conference entitled "Financial Stability: Towards a Macroprudential Approach" on 5 and 6 July 2010 in Hong Kong. The conference aims to bring together academics, policy makers, as well as market participants to engage in constructive discussion on a wide range of theoretical and empirical issues related to the macroprudential approach. Interested authors should submit a draft of the paper in electronic form to hkimr@hkma.gov.hk. The submission deadline is 15 March 2010. The authors of accepted papers will be notified in mid-April 2010. The organisers will cover reasonable travel and accommodation expenses for authors presenting their research and for discussants.

Application for Visiting Research Fellow and Visiting Postdoctoral Researcher

The HKIMR accepts applications for positions as Visiting Research Fellow and Visiting Postdoctoral Researcher on an ongoing and highly competitive basis. The Council of Advisers reviews proposals four times a year. The deadline for the next round of applications is 31 March 2010.

Applicants should note that papers produced, partly or wholly under these two visiting programmes, are required to acknowledge the financial support of the HKIMR if the papers are submitted to any journals.

Please visit our website (<http://www.hkimr.org>) if you are interested in these programmes.

HKIMR Staff



Irene Shiu,
Jennifer Tse,
Kenneth Chow,
Dong He,
Hongyi Chen,
Wei Liao and
Qianying Chen
(From left to right)

Upcoming Visiting Fellows and Seminars

1 – 26 March

Timothy J. Riddiough (University of Wisconsin – Madison)

7 – 30 April

Joshua Aizenman (University of California at Santa Cruz)

1 March 2010 *Investment Shocks and the Co-movement Problem* – John D. Tsoukalas (University of Nottingham)

Recent HKIMR Working Papers

- No.27/2009** “*On the Unstable Relationship between Exchange Rates and Macroeconomic Fundamentals*” by Philippe Bacchetta and Eric van Wincoop
- No.28/2009** “*Evaluating Exchange Rate Management An Application to Korea*” by David C. Parsley and Helen Popper
- No.29/2009** “*Rational Cost Inefficiency in Chinese Banks*” by Kent Matthews, Zhiguo Xiao and Xu Zhang
- No.30/2009** “*Market Structure, Welfare, and Banking Reform in China*” by Chun-Yu Ho
- No.31/2009** “*Currency Internationalisation: Analytical and Policy Issues*” by Hans Genberg
- No.32/2009** “*The Global Crisis: Why Regulators Resist Reforms*” by Leo F. Goodstadt
- No.33/2009** “*The Global Crisis: Fatal Decisions – Four Case Studies in Financial Regulation*” by Leo F. Goodstadt
- No.34/2009** “*Discriminatory Power and Predictions of Defaults of Structural Credit Risk Models*” by T. C. Wong, C. H. Hui and C. F. Lo
- No.35/2009** “*Initial Day Return and Underpricing Cost in Advance Payment Initial Public Offerings*” by Joseph K. W. Fung and Sanry Y. S. Che
- No.36/2009** “*Cross-border Mergers and Acquisitions (M&As) in Developing Asia: The Role of Financial Variables*” by Rabin Hattari and Ramkishan S. Rajan
- No.37/2009** “*Feast and Famine: Explaining Big Swings in the Hong Kong Economy between 1981 and 2007*” by Chak Hung J. Cheng and Michael K. Salemi
- No.38/2009** “*The Financial Crisis and Sizable International Reserves Depletion: From ‘Fear of Floating’ to the ‘Fear of Losing International Reserves’?*” by Joshua Aizenman and Yi Sun
- No.01/2010** “*The Global Crisis: Why Laisser-faire Hong Kong Prefers Regulation*” by Leo F. Goodstadt
- No.02/2010** “*Information Content of Order Flow and Cross-market Portfolio Rebalancing: Evidence for the Chinese Stock, Treasury and Corporate Bond Markets*” by Eric Girardin, Dijun Tan and Woon K. Wong

and more please visit our website.

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