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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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# **Hong Kong Institute for Monetary Research – *Newsletter***

Nineteenth Issue (February 2011)

## **Recent Activities**

### **Second Annual International Conference on the Chinese Economy**

*The HKIMR organised the Second Annual International Conference on the Chinese Economy on 13 and 14 January 2011 in Hong Kong. The theme of this year's conference was "Macroeconomic Management in China: Monetary and Financial Stability Issues".*

The HKIMR launched an annual international conference series on the Chinese economy in 2010. Following the success of the inaugural conference last year, the HKIMR organised the second conference of this series. The conference was intended to provide a world-class forum for academics, policy makers and business economists to discuss important analytical and policy issues related to the Chinese economy.

This two-day conference was divided into three sessions and a total of 11 papers were presented by speakers from various countries and organisations. The first session was chaired by Dong He of the HKMA and HKIMR. In this session, Dennis Tao Yang of The Chinese University of Hong Kong presented his paper entitled "Accounting for Rising Wages in China" while Wenlang Zhang of the HKMA gave a presentation of his paper "What Drives China's Food-Price Inflation and How does it Affect the Aggregate Inflation?" Qianying Chen of the HKIMR also presented her paper entitled "The Implementation of Monetary Policy in China".

In the second session, which was chaired by Luca Silipo of Natixis, Eric Girardin of GREQAM and the University of Aix-Marseille II presented his



Dong He of the HKMA and HKIMR  
delivering the opening remarks



Norman T. L. Chan (Chief Executive of  
HKMA) (right) greeting participants during  
the conference dinner



Panel discussants: Louis Kuijs of the World  
Bank (left) and Murtaza Husain Syed of the  
International Monetary Fund (right)

## Second Annual International Conference on the Chinese Economy

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paper about China's monetary policy communication, and Yongheng Deng of the National University of Singapore presented his paper entitled "Evaluating Conditions in Major Chinese Housing Markets". Before the first day of the conference ended, Lillian Cheung of the HKMA and Galina Hale of the Federal Reserve Bank of San Francisco presented their papers "Are House Prices Rising Too Fast in China?" and "If You Try, You'll Get By: Chinese Private Firms' Efficiency Gains from Overcoming Financial Constraints" respectively.

The third session, which was chaired by Hongyi Chen of the HKIMR, began with the presentation of "What Drives China's Current Account?" by Mathias Hoffmann of the University of Zurich. After that, Nelson Mark of the University of Notre Dame delivered a presentation on the topic "Demographic Patterns and Household Saving in China" followed by the paper "The Growth of Chinese Exports: How Industrial Policy and Good Luck Created a Manufacturing Powerhouse" by Brett Berger of the Federal Reserve Board. The last paper was presented by Wei Liao of the HKIMR entitled "Asian Business Cycle Synchronisation".



Robert N. McCauley of Bank for International Settlements delivering the luncheon speech on the internationalisation of the renminbi



Luca Silipo of Natixis

Besides the presentations of the authors, the aforementioned papers were discussed by experts from all over the world. The discussants included Wing Suen of The University of Hong Kong, Murtaza Husain Syed of the International Monetary Fund, David Cook of The Hong Kong University of Science and Technology, Haibin Zhu of the Bank for International Settlements, Charles Ka Yui Leung of City University of Hong Kong, Yongheng Deng of the National University of Singapore, Louis Kuijs of the World Bank, Danyang Xie of The Hong Kong University of Science and Technology, Guonan Ma of the Bank for International Settlements, Li Cui of The Royal Bank of Scotland Group, and Mathias Hoffmann of the University of Zurich.

In addition, the conference featured a luncheon speech entitled "Internationalisation of the Renminbi" by Robert N. McCauley of the Bank for International Settlements. The conference finished successfully after a panel discussion. The panelists included Louis Kuijs of the World Bank and Murtaza Husain Syed of the International Monetary Fund. The conference was

well-received and was attended by over eighty participants including representatives from the Reserve Bank of Australia, the Central Bank of Brazil, the Bank of England, the Deutsche Bundesbank, the Bank of Japan, the Monetary Authority of Macao, the Central Bank of Malaysia, and The Bank of Thailand.



Speakers and discussants of the conference



Brett Berger of the Federal Reserve Board



## Visiting Fellow – Leo F. Goodstadt

*Leo F. Goodstadt is an adjunct professor in the School of Business Studies, Trinity College, University of Dublin and an honorary fellow of the University of Hong Kong. Formerly chief policy adviser to the Hong Kong Government as head of its Central Policy Unit, he also has extensive experience of corporate consultancy, particularly in banking and regulatory affairs. In January 2000, he became the first outside researcher to use the HKIMR's facilities and has since returned four times as a research fellow. HKIMR working papers were the starting point for a substantial portion of his two latest books: Profits, Politics and Panics: Hong Kong's Banks and the Making of a Miracle Economy, 1935-1985 (2007) and Reluctant Regulators: How the West Created and China Survived the Global Financial Crisis (April 2011). The HKIMR was also the forum for the first version of key sections of his earlier Uneasy Partners: The Conflict between Public Interest and Private Profit in Hong Kong (which is due to be republished in Chinese later this year).*



*“Best of all is its working environment, thanks to the outstanding quality of the support its staff offer and the enthusiasm of colleagues from the HKMA's adjacent Research Department.”*

The HKIMR offers many attractions: its breath-taking views of Hong Kong and its magnificent harbour; the opulence of the shopping mall above which it is built; the myriad restaurants offering every sort of cuisine within comfortable walking distance even at the height of a tropical summer. Best of all is its working environment, thanks to the outstanding quality of the support its staff offer and the enthusiasm of colleagues from the HKMA's adjacent Research Department. For me personally, the HKIMR's "international" dimension is a particularly valuable bonus. Almost all my work focuses on Hong Kong policy issues. It is all too easy to see Hong Kong not as a peripheral player but as a special case, whose economic and financial systems and political arrangements are quite unique. The fellowship programme is an important reality check because visiting fellows, almost always, come from much larger and longer established economies. Their broader perspectives help to place Hong Kong in its true context.

During this visit, I have finished the final sections of a new book on the global financial crisis and its significance for Hong Kong and China. Among its conclusions is that tight regulation of the financial sector protected Hong Kong very effectively against the global crisis (as it had done during the 1997-98 Asian financial crisis) without limiting competition and innovation or slowing the sector's expansion in an increasingly competitive global environment.

As with all policy studies, the end of this project left me with new questions, mainly in connection with China's financial reforms. For example, what accounts for the remarkable speed and extensiveness of the "globalisation" of manufacturing as part of the modernisation process and the much more restricted role assigned to foreign firms in the financial sector? What is the explanation for the cyclical pattern of reform programmes for the Mainland's banking industry in each decade since the early 1970s? Why was official endorsement of Hong Kong as a role model for the transformation of Mainland banking in the first years after Deng Xiaoping's 1978 reforms followed by such limited importation of Hong Kong precedents and practices subsequently.

My current hypothesis is that the role of Hong Kong as the Mainland's interface with the global financial system has been of special importance in shaping national banking policies. When China began the retreat from state planning and controls and switched to high-speed export growth and increasing inflows of FDI in its pursuit of prosperity, Hong Kong already offered all the offshore facilities and expertise that the new "open door" strategy would require. (By contrast, Russia had no such advantage when its economic liberalisation started a decade later.)

On this analysis, financial reforms could take a lower priority for China's policy-makers than was usual in transition and emerging economies for whom the creation of modern banking systems seemed an urgent requirement. Whenever the nation needed financial services whose quality was comparable to New York or London, they were readily available in Hong Kong where Mainland institutions had long had a significant presence.

## Workshop on the Development of Hong Kong as an Offshore Renminbi Centre

*The HKIMR co-organised with the Boyuan Foundation a workshop on “The Development of Hong Kong as an Offshore Renminbi Centre” on 2 September 2010 in Hong Kong.*

The workshop featured presentations on recent policy developments in renminbi banking in Hong Kong and also case studies, including the first renminbi bond issue by a non-Mainland entity, Hopewell Holdings, and renminbi project and trade financing by the China Development Bank, Hong Kong Branch. The workshop was considered to have provided a very productive platform for the exchange of ideas and views between policy makers and industry/market practitioners.



CAO Yuanzheng of the Bank of China International Holdings Limited and Boyuan Foundation



QIN Xiao (former Chairman of China Merchants Group and Council Chairman of Boyuan Foundation) and HE Dong of the HKMA and HKIMR (from left to right)



HE Di of the UBS and Boyuan Foundation

## The Eighth HKIMR Conference on the Mainland Economy

*The HKIMR organised a conference on the Mainland economy entitled “The Role of Property Market in China's Macroeconomics Fluctuations” on 18 November 2010. The conference was the eighth of the HKIMR conference series relating to Mainland China in Putonghua.*

The aim of this conference was to examine the development and risks of the Mainland property market and its role in Mainland macroeconomic fluctuations. This conference featured a keynote speech by Jianhua Zhang (Director-General of the Research Bureau of The People's Bank of China). A total of five papers were presented covering different aspects of the Mainland property market including the ownership structure of the housing market, driving factors of housing prices, housing affordability, and the question of whether the property prices are rising too fast. In addition, Mr. Norman T. L. Chan (Chief Executive of the HKMA) hosted a conference dinner at The Hong Kong Bankers Club, which marked the successful completion of this conference.



Jianhua Zhang (Director-General of the Research Bureau of The People's Bank of China) delivering the keynote speech



Discussion during the conference dinner



Panel discussants: Jun Ma (Deutsche Bank), Mingchun Sun (Daiwa Capital Markets), Qing Wang (Morgan Stanley) and Ting Lu (Merrill Lynch) (From left to right)



## Visiting Fellow – Mathias Hoffmann



*Mathias Hoffmann is Professor of International Trade and Finance in the Department of Economics at the University of Zurich. His research focuses on the macroeconomic aspects of international financial integration and on the link between asset markets and the macroeconomy more generally. His recent published articles include papers on the determinants of international capital flows and imbalances, the international transmission of business cycles and on international risk sharing. Prior to arriving in Zurich in 2006 he was Professor of Economics at the University of Dortmund, a Lecturer at Southampton University and a visiting scholar at the University of California at Berkeley. Mathias Hoffmann is also a fellow of CESifo (Munich). He obtained his undergraduate education in economics and mathematics at WHU Koblenz, Brandeis University and the University of Bonn and a PhD in Economics from the European University Institute in Florence.*

“There is an excellent seminar series and during my stays I have repeatedly had the chance to learn during world class academic conferences organised by the Institute, e.g. the 2<sup>nd</sup> conference on the Chinese Economy. These conferences offer a unique blend of rigorous academic analysis and practical policymaking insight.”

It was the HKIMR's previous director, Stefan Gerlach, who first drew my attention to the visiting fellow programme and I continue to be grateful to him for his hint. This is now my second longer visit to the HKIMR and each time I have enjoyed it tremendously. I first came to Hong Kong during a sabbatical in autumn 2009 to do a project in which I wanted to examine the role that financial integration and changes in the structure of business cycles in Asia had on

consumption and consumption volatility. Once I got started, I quickly realised that it was hard to make progress without first understanding better the dynamics of aggregate consumption in the region's biggest country – China. This led me to write a paper entitled ‘*What drives China's current account?*’ in which I attempt a taxonomy of the factors driving China's external adjustment. China's huge trade surpluses are often perceived as puzzling against the backdrop of standard models: a quickly emerging economy, the standard story goes, should frontload its consumption while at the same time borrowing in international capital markets, thus running a big trade deficit. However, in only a slightly richer version of such a model, other factors should play a big role: for example, it will matter how people expect the prices of non-tradeables such as housing, medical care or education to develop in the future. In fact, if people expect these prices to go up relative to that of tradeable consumption goods such as food or cars, it will give them a strong incentive to save. My empirical results suggest that this was a very important factor in driving up China's aggregate savings rate since the 1990s and the staggering increases in housing prices that we are seeing right now in many Chinese cities seem to vindicate people's expectations along this dimension.

During my most recent visit I have been working on a joint project with the HKIMR's Carol Wei Liao. We contribute to the recent debate about decoupling and macro-financial linkages by exploring what capital flows have to tell us about changing patterns of international business cycle synchronization. We recognize that there are underlying growth trends in the newly emerged Asian economies that will almost inevitably increase these countries' weight in the world economy. This is what we call ‘deep’ decoupling. Our analysis then uses the pattern of global capital flows – trade balances – as a guide to market expectations concerning the relative importance of these growth trends and we examine how these growth expectations affect the transmission of real and financial shocks.

It is always a pleasure to interact with the staff at the HKIMR and HKMA and with other visiting fellows on many of the topics that shape the agenda of international economic policymaking and of the Asia-Pacific region in particular. There is an excellent seminar series and during my stays I have repeatedly had the chance to learn during world class academic conferences organised by the Institute, e.g. the 2<sup>nd</sup> conference on the Chinese Economy. These conferences offer a unique blend of rigorous academic analysis and practical policymaking insight.

Finally, the HKIMR's premises high up in Two International Finance Centre and overlooking Hong Kong Harbour and the Pearl River Delta – where you can see a significant fraction of world trade actually happening – offer a unique atmosphere to think about all matters related to international trade and finance. And in this vibrant city it is hard NOT to find inspiration outside work. My personal favourites include simple things such as a leisurely Star Ferry crossing of Victoria Harbour or a hike in Hong Kong's beautiful countryside during the week-end. You will find that, surely, this must be Asia's greenest world city!

## Seminar on Hong Kong as an International Financial Centre for China and for the World



Professor K. C. Chan (Secretary for Financial Services and the Treasury) and Dr Dong He (Executive Director (Research) of the HKMA and Director of the HKIMR) (From left to right)

*The HKIMR and the Lingnan University co-organised a seminar entitled “Hong Kong as an International Financial Centre for China and for the World” on 10 December 2010.*

The seminar commenced with the opening remarks made by Professor K. C. Chan (Secretary for Financial Services and the Treasury) and featured a presentation by Professor Jesús Seade (Vice-President of Lingnan University) on behalf of a team at Lingnan University with collaborators from The University of Hong Kong, City University of Hong Kong, BBVA and the Milken Institute. The presentation was followed by a panel discussion session. The panelists included Mr. Michael Buchanan (Managing Director and Chief Economist of Goldman Sachs Asia), Professor Leonard Cheng (Dean of the School of Business and Management of The Hong Kong University of Science and Technology) and Mr. Matthew Harrison (Head of Research and Corporate Development of Hong Kong Exchanges and Clearing).



Professor Jesús Seade (Vice-President of Lingnan University)



Professor Leonard Cheng (Dean of the School of Business and Management of The Hong Kong University of Science and Technology) and Mr Michael Buchanan (Managing Director and Chief Economist of Goldman Sachs Asia) (From left to right)

## 2010 Asian Pension Fund Roundtable: Managing Risk in the Face of Austerity

*The HKIMR was the local host for the “2010 Asian Pension Fund Roundtable: Managing Risk in the Face of Austerity” of the Pacific Pension Institute (PPI) on 28 and 29 October 2010.*

This roundtable marked PPI’s eighth annual gathering in Asia and was a high-level dialogue between pension and sovereign fund representatives and experts in government, business, and academia. It focused on three questions: 1) Does the global economy in the next decade depend on Asia? 2) What is risk in today’s context, and how is it being managed? 3) Which investment and operational strategies are optimal in the current climate?

More details of the roundtable can be found on [http://www.pacificpension.org/roundtables\\_details.asp?id=14](http://www.pacificpension.org/roundtables_details.asp?id=14)

## Upcoming Activities

### Call for Papers: Conference on Monetary and Financial Stability in the Asia-Pacific amid an Uneven Global Recovery

The HKIMR will co-organise a conference entitled "Monetary and Financial Stability in the Asia-Pacific amid an Uneven Global Recovery" with the Asia-Pacific Department (APD) of the International Monetary Fund (IMF) on 12 October 2011 in Hong Kong.

The Asia-Pacific region has rebounded strongly from the global financial crisis of 2007-2009, and is maintaining a sizeable lead over the major advanced economies in the pace of recovery. At the same time, incipient signs of consumer price and asset price inflation have emerged in the region in the face of large inflows. Policymakers are facing important challenges in maintaining monetary and financial stability and in making sure that the recovery process will not be disrupted.

Against this background, the conference aims to bring together policymakers, academics as well as market participants to have constructive discussion on a wide range of empirical and policy issues related to the maintenance of monetary and financial stability in the region. Topics may include, but are not limited to, the following:

- The nature of capital flows and their interactions with domestic financial systems
- The dynamics of global commodity prices and their interactions with domestic inflation processes
- Potential trade-off between efficiency and stability in the maintenance of monetary and financial stability
- The costs and benefits of price-based and quantity-based policy measures
- Coordination between monetary, fiscal and macroprudential policies

#### Submission of Papers:

Interested authors should submit a draft of the paper in electronic form to [hkimr@hkma.gov.hk](mailto:hkimr@hkma.gov.hk). The submission deadline is 15 July 2011. The authors of accepted papers will be notified by 31 August 2011.

#### Expenses:

The organisers will cover reasonable travel and accommodation expenses for paper presenters and discussants from academia.

### CCBS/HKIMR Seminar on Risk Modelling

The Centre for Central Banking Studies (CCBS) of the Bank of England (BOE) and the HKIMR will co-organise a seminar on risk modelling in April 2011. The Institute will invite representatives from regional central banks and supervisory authorities. The seminar is intended to cover the systemic risk model (RAMSI) of the BOE, a module on funding liquidity risk, and the actual experience of the BOE in overcoming data issues.

### Workshop on International Reserves Accumulation

The Institute will co-organise a two-day workshop with the Independent Evaluation Office (IEO) of the International Monetary Fund (IMF) on 24 and 25 March 2011 regarding an evaluation project concerning international reserves accumulation. The objective of the workshop is to discuss the aforementioned issue with senior policy officials and academics who have an in-depth knowledge of the topic.

## Application for Visiting Research Fellow

The HKIMR accepts applications for positions as Visiting Research Fellow 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 2011.

*Applicants should note that papers produced, partly or wholly under this visiting programme, 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 this programme.

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## Upcoming Visiting Fellows and Seminars

3 – 30 May 2011

**Xiaodong Zhu** (University of Toronto)

9 – 27 May 2011

**George M. von Furstenberg** (Indiana University)

July – August 2011

**Thorsten Beck** (Tilburg University)

**3 March 2011** *Provincial and Regional*

*Capital Mobility in China: 1978-2006 –*  
Jennifer Lai (City University of Hong Kong)

**10 March 2011** *New Monetary Conditions*

*Index: Applications for HK and for the US –*  
Lok Sang Ho (Lingnan University)

## Recent HKIMR Working Papers

**No.25/2010** “*The Risk of Sudden Depreciation of the Euro in the Sovereign Debt Crisis of 2009-2010*” by Cho-Hoi Hui and Tsz-Kin Chung

**No.26/2010** “*Liquidity Crunch in Late 2008: High-Frequency Differentials between Forward-Implied Funding Costs and Money Market Rates*” by Matthew S. Yiu, Joseph K. W. Fung, Lu Jin and Wai-Yip Alex Ho

**No.27/2010** “*Home Bias in Currency Forecasts*” by Yu-chin Chen, Kwok Ping Tsang and Wen Jen Tsay

**No.28/2010** “*Self-Fulfilling Risk Panics*” by Philippe Bacchetta, Cédric Tille and Eric van Wincoop

**No.29/2010** “*What Does the Yield Curve Tell Us about Exchange Rate Predictability?*” by Yu-chin Chen and Kwok Ping Tsang

**No.30/2010** “*A Target-Zone Model with Two Types of Assets*” by Yue Ma, Shu-ki Tsang, Matthew S. Yiu and Wai-Yip Alex Ho

**No.31/2010** “*Why are Saving Rates so High in China?*” by Dennis Tao Yang, Junsen Zhang and Shaojie Zhou

**No.01/2011** “*A Macro-Finance Approach to Exchange Rate Determination*” by Yu-chin Chen and Kwok Ping Tsang

**No.02/2011** “*Effects of Liquidity on the Nondefault Component of Corporate Yield Spreads: Evidence from Intraday Transactions Data*” by Song Han and Hao Zhou

**No.03/2011** “*Asset Price and Monetary Policy – The Effect of Expectation Formation*” by Nan-Kuang Chen and Han-Liang Cheng

**No.04/2011** “*Nowcasting Chinese GDP: Information Content of Economic and Financial Data*” by Matthew S. Yiu and Kenneth K. Chow

**No.05/2011** “*The Fragility of Discretionary Liquidity Provision: Lessons from the Collapse of the Auction Rate Securities Market*” by Song Han and Dan Li

**No.06/2011** “*Asian Business Cycle Synchronisation*” by Dong He and Wei Liao

**No.07/2011** “*The Effects of Public Listing on the Performance of Banks in China*” by Bin Liu

and more ..... please visit our website.

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