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To: Hon Cyd HO Sau-lan, JP (Chairman)
Subcommittee on International Organisations
Legislative Council
Hong Kong SAR

**Submission to
Subcommittee on International Organisations (Privileges and Immunities)
(ASEAN+3 Macroeconomic Research Office) Order**

Dear Ms Ho,

Thank you for the opportunity to have input into the Subcommittee's deliberations on the status of the AMRO in Hong Kong. In the notes below, we have set out the context for AMRO against the backdrop of wider efforts towards regional financial integration in East Asia, considered the implications of the decision before the Subcommittee, and also briefly discussed issue arising from this move. Should you require any further information, we would be pleased to provide it.

Yours sincerely,



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Context

It has now been nearly 25 years since East Asia began to develop tighter integration ties between the members of ASEAN and the three Northeast Asian states of China, Japan, and South Korea. In the aftermath of the 1997-98 Asian Financial Crisis (AFC), these thirteen states accelerated their ties under the ASEAN+3 (APT) umbrella. The key area of policy focus of the leaders of these states was the creation of deeper economic and financial ties, so as to add regional capacity in the event of a subsequent financial crisis and to promote economic development within the lesser developed regional states.

These initial efforts had an – initially – unintended consequence, the development of deeper trust and cooperation between the thirteen APT states. Although disputes still arise, these early efforts have spilled over into new initiatives between legislative bodies and municipal councils, labour and social welfare bureau, environmental and technology industries, as well as policymakers dealing with education and youth affairs. Taken together, these cooperative efforts are rapidly constructing a regional community across East Asia. In policy terms, there is not a single area of domestic policy concern that does not have an APT aspect.

Due to historical policy trajectories, Hong Kong has been largely removed from these regional integration processes. Partly this is due to a lack of external affairs capacity in the SAR as well as a historical lack of policy clarity as to what constitutes foreign as opposed to external affairs coupled with a surfeit of understanding as to how to classify the types of integration efforts that are a daily occurrence in East Asia. While meetings between Heads of Government, Foreign or Defence Ministers are clearly within the realm of foreign policy, it is less clear – for example – if meetings between Sports or Youth Affairs officials should be similarly categorised. Regionally, while such meetings are acknowledged to have a foreign policy element, they are usually considered to be a form of “low politics” rather than “high politics”.

Given the low politics of such efforts, Hong Kong – as an SAR – is very well placed to play an important role in regional processes; as many other Chinese cities and provinces are already doing. Hong Kong has already been involved in various regional financial networks and bodies – such as EMEAP (Executives’ Meeting of East Asia-Pacific Central Banks), where the HKMA also plays an important role in the three main sub-working groups as well. Hong Kong has also been involved in both tranches of the ASEAN Bond Fund initiative, where its pool of advanced understanding of financial debt markets has proved to be a valuable resource. The HKMA has further been a member of the Group of Experts (GoE) of the ASEAN Bond Market Initiative.

However, despite the importance of regional policy engagement for Hong Kong as a financial centre, the SAR has otherwise chosen not to pursue membership or observer status in the plethora of financial and economic fora that now define the region.

Decision

The Chiang Mai Initiative Multilateralism (CMIM) built on the post-AFC Chiang Mai Initiative, which was – in turn – linked to a series of financial and economic policy programmes developed by the ASEAN and ASEAN+ Finance Ministers and Officials. The CMIM was launched in 2010, after a similar series of APT Finance Ministers meetings, which established the operating parameters for the CMIM. Hong Kong had no voice in these meetings.

The ASEAN+3 Macroeconomic Research Office (AMRO) was established in 2011 in Singapore. The reason for the creation of the AMRO was to “contribute to securing the economic and financial stability of the region through conducting regional economic surveillance and supporting the implementation of the CMIM.” As the post-AFC financial policy fora clearly demonstrated, apart from a handful of centres, regional expertise in CMI and CMIM policy matters and data analysis was lacking. In October 2014, the APT states finalized the AMRO treaty that upgraded the Office to an international organisation. This treaty came into effect in February 2016.

Hong Kong’s involvement in the CMIM was the result of negotiations, primarily between China and Japan. Hong Kong has two important areas where it contributes to CMIM processes: (1) generally in the provision of financial expertise and the injection of critical liquidity that enables the CMIM to achieve its target, and (2) in the provision of financial expertise specifically to China so as to enable the PRC to play a full role in this initiative.

The upgrading of the AMRO to that of an international organisation necessitates that the Order before the Subcommittee be confirmed. Without it, Hong Kong will be seen to not be as committed to the CMIM process as the SAR has previously indicated. While the AMRO is currently a relatively small surveillance unit, a deputy director (based in Hong Kong and due to commence duties in June 2016) has been advertised. More staff will be sought as the duties before the AMRO develop. The Special Autonomous nature of Hong Kong provides an attractive location for such staff. Far more importantly, Hong Kong’s commitment to the recognition of the AMRO as an international body also means that policy discussions can take place in the SAR with opportunities for greater knowledge transfer in this policy arena. If the Subcommittee decides not to support the AMRO in this most elementary of ways then, as is the nature of such bodies, both the personnel and opportunities for policy input will go elsewhere.

Final Considerations

As is indicated above, the decision on the AMRO – while very important in and of itself – is only a small glimpse into the financial policy processes that are shaping East Asia. Increasingly, decisions are being made that intrinsically shape the economic and financial landscape in which Hong Kong operates. If this is the limit of Hong Kong's policy input into these decisions, then the SAR’s ability to continue to safeguard and shape its future will be similarly limited.