In this note, the Committee is asked to make a recommendation regarding the renewal of observer status for Hong Kong, China and Singapore.
1. Under rules established by the OECD Council, each Committee is required to make a recommendation to the Council concerning the renewal of observerships. This note invites the Financial Markets Committee to consider the renewal of the observer status for Hong Kong, China and Singapore which are due for review by the end of 1999. In order to facilitate the Committee’s decision, the Secretariat has prepared this note summarising the history of Hong Kong, China and Singapore as observers in the Committee and inviting delegates to approve renewal of their observer status. The specific proposals made to delegations are shown in Annexes 1 and 2.

2. The OECD Council decided that for non-Members whose observer status was due to be renewed, subsidiary bodies should submit to the Council a technical recommendation concerning the prospective renewal which should specifically provide an assessment of the quality of participation of each observer [See Resolution C(96)64/REV1/FINAL]. The Council reiterated this point later in 1996, requesting that an evaluation be given of the effective participation of each Observer [C/M(96)24, point 330]. This year, the Council decided that “standing invitations are generally issued for a period of two years” [see C(2000)147, Annex 2].

A. HONG KONG, CHINA

3. The Committee on Financial Markets examined the request of the Hong Kong Government to participate as an observer in the work of Committee and its subsidiary bodies at its meeting on 28 February-1 March 1995. The formal session of the Committee was preceded by an informal meeting of the enlarged Bureau with a delegation from Hong Kong.

4. In view of Hong Kong's coherence of financial policies, its high degree of integration into the international financial system, the strong commitment of the Hong Kong authorities to maintain an open and liberal financial system and as well as assurances that Hong Kong would retain sufficient autonomy after July 1997 to justify continuation of its observer status, the Committee recommended that Hong Kong be invited to take part as an observer in its work and that of its subsidiary bodies. The Council, at its 848th session on 13 April 1995, invited Hong Kong to participate in 1995 as an observer in the work of the Committee and that of its subsidiary bodies. The Council last renewed the invitation to Hong Kong to participate as an observer at the end of 1999.

5. At the time they requested observer status, the Hong Kong authorities indicated that they did not expect a change in monetary and financial regime after the hand-over of 1 July 1997. The Hong Kong Monetary Authority was confident that the relevant provisions of the Basic Law provide a sound legal foundation for the maintenance of Hong Kong's position as an international financial centre. In particular, the Basic Law stipulates that:

– the Government of the future Hong Kong Special Administrative Region (SAR) shall on its own formulate monetary and financial policies;

– the Hong Kong dollar as the legal tender in Hong Kong shall continue to circulate and shall be freely convertible;

– no exchange control policies shall be applied in Hong Kong and the free flow of capital shall be safeguarded;

– the Exchange Fund shall be managed and controlled by the government of the SAR, primarily for regulating the exchange value of the Hong Kong dollar.
6. The Sino-British Joint Declaration, signed in 1984 and registered under Article 102 of the United Nations Charter by both governments, set out arrangements for Hong Kong after 1 July 1997. The Joint Declaration and its annexes are very detailed and cover wide-ranging aspects of post-1997 life. They have been repeated and elaborated upon the Basic Law, a Chinese law which became Hong Kong, China’s mini-constitution after July 1997. The most significant feature of the Joint Declaration and the Basic Law, and the one which gives expression to the Chinese concept of “one country, two systems”, is the high level of autonomy which Hong Kong will continue to enjoy under Chinese sovereignty. The Joint Declaration provides explicitly that the Hong Kong Special Administrative Region (SAR) will enjoy a high degree of autonomy from the central government of the People's Republic of China, except in foreign affairs and defence. It provides that the SAR will retain the status of a free port and a separate customs territory, that it will retain the status of an international financial centre and that there will be free flow of capital. It also provides that the SAR may on its own maintain and develop economic relations and conclude relevant agreements with states. Annex 1 to the Joint Declaration, which is an integral part of the Treaty, provides further detailed assurances that the SAR shall maintain the economic system currently practised in Hong Kong, that it shall decide its economic, trade and financial policies on its own and that it will continue to maintain an open and liberal financial system.

7. In the time since the People’s Republic of China assumed sovereignty over Hong Kong in July 1997 and the present, both the authorities in Hong Kong, China and those of the People’s Republic of China have given every indication that they are committed to preserving Hong Kong, China’s high degree of autonomy.

8. Hong Kong delegates have attended all meetings of the Committee on Financial Markets since they were invited to participate as observers in 1995. They have also participated in the Committee's informal meetings with representatives of the financial services industry. They have been active in discussions and have replied with considerable transparency whenever questions have been asked. In addition to participation by officials, Hong Kong, China has assisted the Secretariat in identifying participants from the private sector for selected meetings.

B. SINGAPORE

9. The Committee on Financial Markets examined the request of Singapore to participate in its work at the plenary session on 10 March 1999, following on a meeting with a delegation from Singapore to review the policies and practices of Singapore to review the policies and practices of Singapore in the financial sector.

10. The Committee noted that Singapore is an important international financial player, particularly in Asia, and that the authorities are committed to further develop it as a financial centre. The Committee also agreed that Singapore's participation could make a contribution to its work programme, in particular to the monitoring of emerging financial markets in Asia as well as to the analysis of financial market trends in that region, and that it might play an important role in the outreach activities of the CMF. On the basis of these considerations, the Committee came to the conclusion that it would be appropriate to grant observer status to Singapore [see C(99)59]. At its 954th session on 15-16 July 1999, the Council agreed to invite Singapore to participate as an observer in the Committee and its subsidiary bodies.

11. Officials from Singapore have attended all the CMF sessions held since they were invited to participate as observers in late 1999 and have participated in the Committee's informal meetings with representatives of the financial services industry. They have been active in discussions and have contributed to the elaboration of the Committee's work programme for 2001-2002.
ANNEX 1: DRAFT RECOMMENDATION TO THE COUNCIL

Renewal of Observer Status of Hong Kong, China

12. The Committee on Financial Markets recommended the extension of Hong Kong, China’s observer status to the years 2001-2002. The Committee’s recommendation was made on the basis of the following considerations:

1) Hong Kong, China has an open financial sector, with a high degree of integration into the international financial system.

2) Hong Kong, China is a major international financial centre.

3) The Joint Declaration, the agreement that provided for the transfer of sovereignty from the United Kingdom to the People’s Republic of China, provided that after the transfer Hong Kong, China would retain sufficient autonomy to justify continued participation in these organisations. Thus far, Hong Kong, China appears to be maintaining its autonomy as stipulated in the Joint Declaration;

4) Hong Kong China’s participation in the work of the Committee on Financial Markets has been beneficial to the Committee as well as to Hong Kong, China.
ANNEX 2: DRAFT RECOMMENDATION TO THE COUNCIL

Renewal of Observer Status of Singapore

13. The Committee on Financial Markets recommended the extension of Singapore’s observer status to the years 2001-2002. The Committee’s recommendation was made on the basis of the following considerations:

1) Singapore has an open financial sector, with a high degree of integration into the international financial system.

2) Singapore is a major international financial centre.

3) The participation of Singapore in the work of the Committee on financial Markets has been beneficial to the Committee as well as to Singapore.