

The 11<sup>th</sup> International Convention of the  
East Asian Economic Association

SOUVENIR PROGRAMME

15 - 16 November 2008  
Diamond Hotel  
Manila, Philippines



## MESSAGE



The Bangko Sentral ng Pilipinas (BSP) is grateful to the East Asian Economic Association (EAEA) for holding its 11th International Convention here in the Philippines for the first time in cooperation with the Philippine Economic Society and the Philippine Institute for Development Studies.

The theme of this year's biannual convention, "Regional Risk Management in East Asia" comes at an opportune time as the global economy is threatened by a major slowdown due to the deepening global financial crisis. During this challenging period, it is important for us to engage our peers in constant dialogue. Fora such as this biannual convention are an invaluable opportunity for an exchange of views and ideas on how Asian economies can better cope individually and as a group to the challenges of a highly volatile international economic environment marked by financial stress and a slowdown in global growth.

There are other highly topical issues that will be discussed in this conference, such as labor migration, income inequality, food policy, and Asia's role in managing global climate change. The range of subjects of the papers in the conference reflects not only the variety of economic challenges in the Asian region, but also the vibrancy of the economics profession.

Let me extend my warmest welcome to all of you, and wish you all a fruitful discussion and successful conference. Mabuhay kayong lahat.

(signed)  
AMANDO M. TETANGCO, JR.  
Governor

## EAST ASIAN ECONOMIC ASSOCIATION

## MESSAGE



Welcome to the 11th international convention of the East Asian Economic Association, EAEA11! We are delighted to be able to hold this convention, with the wonderful support and help of the Philippine Economic Society, here in Manila, particularly because the Philippines is the only country among the ASEAN5 where we have not held a convention. Since the first convention in Kyoto in 1988 we have held biannual conventions in Bandung, Seoul, Taipei, Bangkok, Kitakyushu, Singapore, Kuala Lumpur, Hong Kong, and Beijing.

The East Asian Economic Association (EAEA) was established in 1987 by a group of economists originated from East Asia. EAEA is the first international academic organization focusing on the study of economies of East Asia. The founders intended to strengthen the fundamentals of economic and social development in East Asia through human capital formation in relation to research on East Asian economies. In retrospect, East Asia is the only region in the world that has achieved catching-up in per capita income through sustained growth.

In the last two decades, however, East Asian economies have witnessed various ups and downs. The 1997 Financial Crisis is a notable example and the 2008 financial turmoil is posing similar threats. We have learned lessons, but will have to learn more. This convention's theme is Regional Risk Management in East Asia. When we planned this theme, we did not foresee crisis this much. Today, we are bracing ourselves for the next challenge. Facing this harsh reality, let us make use of the next two days exchanging views and learning from each other. After this Convention, we hope we could return home with more knowledge, more thoughts, and more intelligence to contribute to the region.

Finally, we would like to remind all of you that EAEA11 is supported and facilitated by many sponsors, corporate members, and EAEA members like you. I thank all of them for their generous contributions, financial or otherwise, and we look forward to their continuing support of our Association.

(signed)  
Lawrence J. Lau  
President of the East Asian Economic Association

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## ABOUT THE EAEA

The East Asian Economic Association (EAEA) was established in 1987 as the first international academic organization to focus on the economics of East Asia, comprising Northeast and Southeast Asia. The major activities of the EAEA include publishing a quarterly journal, the Asian Economic Journal, and holding biannual international conventions. This page provides links to information about (1) the EAEA and its administration, (2) the Asian Economic Journal, and (3) the EAEA's international conventions, which are held biannually.

<http://www.icsead.or.jp/eaea/eaea.html>

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**JOSEF T. YAP**  
Philippine Institute for Development Studies

CONFERENCE  
PROGRAM

**14 November 2008**

- 1715 - 1730 Assembly at Diamond Hotel Lobby
- 1730 Bus departure for BSP
- 1800 Arrival at BSP Metropolitan Museum Tour
- 1830 Welcome Cocktails
- Hosted by:  
**GOV. AMANDO TETANGCO**  
Banko Sentral ng Pilipinas
- 2030 Bus leaves for Diamond Hotel / Bayview Park Hotel

**15 November 2008**

- 0800 - 1000 Registration  
*(DIAMOND BALLROOM FOYER 1/F)*
- 0830 - 0840 Opening Ceremonies  
*(DIAMOND BALLROOM 1/F)*
- Opening Remarks:  
**AKIRA KOHSAKA**  
Osaka University
- 0840 - 0945 Plenary Session 1: Keynote Address  
*(DIAMOND BALLROOM 1/F)*
- Introduction:  
**AKIRA KOHSAKA**  
Osaka University
- Global Imbalances After the Financial Crisis***  
**BARRY BOSWORTH**  
Brookings Institute
- 0945 - 1015 Coffee Break
- 1015 - 1215 ADB and Parallel Sessions 1a & 1b
- Special ADB Session:  
***Global Shocks and Regional Integration: Is Asia Decoupling?***  
*(DIAMOND BALLROOM 1/F)*
- Chair:  
**JONG-WHA LEE**  
Asian Development Bank
- Panelists:  
**GIOVANNI CAPANNELLI**  
Asian Development Bank
- AKIRA KOHSAKA**  
Osaka University
- MARCUS NOLAND**  
Peterson Institute of International Economics
- MARIA SOCORRO COCHOCO-BAUTISTA**  
University of the Philippines

YUN- WING SUNG  
Chinese University of Hong Kong

ADB Session: ***Inclusive Development***  
*(RUBY FUNCTION ROOM 2/F)*

Chair:  
**JUZHONG ZHUANG**  
Asian Development Bank

**SHIKHA JHA**  
Asian Development Bank  
**AASHISH MEHTA**  
University of California-Santa Barbara  
***Effectiveness of Public Spending: The Case of Rice Subsidies in the Philippines*** #175

**TUN LIN**  
Asian Development Bank  
**JUZHONG ZHUANG**  
Asian Development Bank  
**DAMARIS YARCIA**  
Asian Development Bank  
***What Drives China's Provincial Income Inequality: Evidence from Grouped Income Data*** #176

**HYUN H. SON**  
Asian Development Bank  
**JHIEDON FLORENTINO**  
Asian Development Bank  
***Ex-ante Impact Evaluation of Conditional Cash Transfer Program on School Attendance and Poverty: The Case of the Philippines*** #177

**RANA HASAN**  
Asian Development Bank  
**KARL ROBERT L. JANDOC**  
Asian Development Bank  
***Trade and Wage Inequality in the Philippines: Evidence from Labor Force Surveys*** #178

**DONGHYUN PARK**  
Asian Development Bank  
***Aging Asia's Looming Pension Crisis*** #180

1215 - 1315 Lunch  
*(DIAMOND BALLROOM 1/F)*

1315 - 1515 Parallel Sessions 2a, 2b, 2c, 2d, 2e, 2f, 2g

Session 2a: ***Macroeconomic Policy***  
*(RUBY FUNCTION ROOM 2/F)*

Chair:  
**JIANG-HEE YOO**  
Ewha Womans University & Korea Economic Research Institute

**EU CHYE TAN**  
University of Malaya  
***Inflation and Economic Growth in ASEAN*** #085

NGUYEN THI THUY VINH  
Kobe University  
SEIICHI FUJITA  
Kobe University  
*The Effect of the Real Exchange Rate on Output  
and Inflation: Evidence from Vietnam* #145

HAN-MIN HSING  
National Ping Tung Institute of Commerce  
*The role of currency denomination in the effect of  
exchange rate changes on trade balance* #131

TAIZO MOTONISHI  
Kansai University  
*Are the East Asian Currencies Still Misaligned?:  
An Analysis Based on the Balassa-Samuelson  
Model Using Data from 118 countries* #149

Discussants:  
TURKHAN ALI ABDUL MANAP  
International Islamic University Malaysia

CRAIG R. PARSONS  
Yokohama National University

EIJI OGAWA  
Hitotsubashi University

KIAN-TENG KWEK  
University of Malaya

Session 2b: *Foreign Direct Investment*  
(AMETHYST FUNCTION ROOM 2/F)

Chair:  
FREDRIK SJÖHOLM  
Research Institute of Industrial Economics, Stockholm,  
Örebro University

MITSUYO ANDO  
Keio University  
FUKUNARI KIMURA  
Keio University  
*International Production/Distribution Networks in  
East Asia and Domestic Operations: Evidences  
from Japanese Firms* #186

XAYPHONE KONGMANILA  
National University of Laos  
Hiroshima University  
*On the Relationship between Innovation and  
Export Behavior: An Empirical Investigation of  
Lao Garment Firms* #051

CASSEY LEE  
University of Nottingham Malaysia Campus  
*Innovation, Productivity and Exports: Firm-Level  
Evidence from Malaysia* #040

HARYO ASWICAHYONO  
Australian National University  
DIONISIUS NARJOKO  
Australian National University  
*Industrialization after a Deep Economic Crisis:  
Indonesia* #018

Discussants:  
PREMA-CHANDRA ATHUKORALA  
TRAN QUANG TIEN  
Australian National University

KAZUYUKI MOTOHASHI  
YUAN YUAN  
University of Tokyo

QUN LIU  
Japan Bank for International Cooperation Institute

LUDO CUYVERS  
JOSEPH PLASMANS  
RETH SOENG  
DANIEL VAN DEN BULCKE  
University of Antwerp

Session 2c: *International Trade*  
(CITRINE FUNCTION ROOM 2/F)

Chair:  
JAYAT MENON  
Asian Development Bank

TAO YUAN  
Nankai University  
HONG-XV LU  
Nankai University  
*An Empirical Study on the Relationship between  
Anti-dumping Actions against China and China's  
Foreign Direct Investment* #136

DAVID JAY GREEN  
Asian Development Bank  
*The Role of ASEAN Economic Community as a  
Commitment to Policy Certainty* #101

SHUJIRO URATA  
Waseda University  
KAZUHIKO YOKOTA  
International Centre for the Study of East Asian Development  
*The Causes of Parts and Components Trade in  
East Asia -Is East Asia unique and if so, why?* #089

ERWIN L. CORONG  
International Food Policy Research Institute  
RACHEL REYES  
De La Salle University  
ANGELO TANINGCO  
De La Salle University  
*Poverty Impacts of Preferential Trading  
Arrangement and Most-Favored-Nation Treatment  
on the Philippines: A Computable General  
Equilibrium Analysis* #088

Discussants:  
AMZUL RIFIN  
University of Tokyo and Bogor Agricultural University, Indonesia

HIRO LEE  
Osaka University

ARCHANUN KOHPAIBOON  
Thammasat University

INNWON PARK  
Korea University, and Soonchan Park, Kongju National University

Session 2d: **Financial Market**  
(OPAL FUNCTION ROOM 2/F)

Chair:  
HIDENOBU OKUDA  
Hitotsubashi University

TATSUYOSHI MIYAKOSHI  
Osaka University  
**Mechanism Design Theory for International  
Finance: Incorporating International Public  
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YUNIARTO HADIWIBOWO  
Ministry of Finance of the Republic of Indonesia  
**Ricardian Equivalence in Developing Countries:  
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BIN-JIAN YAN  
Nanjing Agriculture University  
JIN FAN  
Jiangsu Administration Institute  
**An Empirical Macro-closure Study of CGE Model  
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Understanding China's Macro-economy** #034

BIENVENIDO S. CORTES  
Pittsburg State University  
**The Role of Money in the Monetary Policy of the  
Philippines** #009

Discussants:  
PRINCE CHRISTIAN R. CRUZ  
Global Property Guide

CHEU SEE PENG  
CIMB Bank Berhad  
YIING JIA LOKE  
Universiti Sains Malaysia

MASAHIRO INOYUCHI  
Kyoto Sangyo University

JAMIL PAOLO S. FRANCISCO  
Ateneo de Manila University

Session 2e: **Labor Market**  
(JADE FUNCTION ROOM 2/F)

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Australian National University

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IFPRI  
MEGUMI MUTO  
JICA Research Institute  
RENO DEWINA  
IFPI  
SONY SUMARYANTO  
ICASEPS

**Spatial Networks, Incentives and the Dynamics of  
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NGUYEN DUC THANH  
Vietnam National University  
**Economywide Effects of International  
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AUBREY TABUGA  
Philippine Institute for Development Studies  
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PIRIYA PHOLPHIRUL  
National Institute of Development Administration  
PUNGPOD RUKUMNUAYKIT  
National Institute of Development Administration  
**Economic Contribution of Migrant Workers to  
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Discussants:  
CHRIS SAKELLARIOU  
Nanyang Technological University

CHIH-HAI YANG  
National Central University  
CHUN-HUNG A. LIN  
Tamkang University  
CHIEN-ZU LIN  
National Central University

PHANHPAKIT ONPHANHDALA  
TERUKAZU SURUGA  
Kobe University

DAVID NEWHOUSE  
World Bank Office, Jakarta  
DANIEL SURYADARMA  
Australian National University

Session 2f: **Income Inequality**  
(ONYX FUNCTION ROOM 2/F)

Chair:  
YASUYUKI SAWADA  
University of Tokyo

TONY IRAWAN  
Bogor Agricultural University  
DJONI HARTONO  
University of Indonesia  
**Decentralization Policy and Equity: A Theil  
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RAHMAM ISMAIL  
University Kebangsaan Malaysia  
ISHAK YUSSOF  
University Kebangsaan Malaysia  
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SOTHEA OUM  
Monash University  
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RAGAYAH HAJI MAT ZIN  
Universiti Kebangsaan Malaysia  
**Income Distribution in Malaysia: Old Issues, New  
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Discussants:  
MASAHIRO SHOJI  
University of Tokyo

PRIJONO TJIPTOHERIJANTO  
University of Indonesia

GIANG THANH LONG  
National Economics University (NEU)

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RODOLFO M. NAYGA, JR  
University of Arkansas  
XIMING WU  
Texas A&M University  
TIFFANY P. LAUDE  
University of the Philippines Los Baños

Session 2g: **Energy and Infrastructure**  
(EMERALD FUNCTION ROOM 2/F)

Chair:  
XIAOGUANG CHEN  
Renmin University of China

XUNPENG SHI  
Australian University  
**Can coal be reconciled with the environment? #128**

NAGENDRA SHRESTHA  
Japan Bank for International Cooperation  
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BUDY P. RESOSUDARMO  
Australian University  
FRANK JOTZO  
Australian National University  
ARIEF A. YUSUF  
Padjadjaran University  
DITYA A. NURDIANTO  
Australian National University  
**Decomposing CO2 Emission from Fossil Fuel  
Combustions in Indonesia to Understand the  
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KITJA TOPAIBOUL  
Payap University  
SUPACHOK KOYDULYA  
Payap University  
**Economic Analysis of Jatropha as an Energy  
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Commercial Basis in Thailand #026**

Discussants:  
KITJA TOPAIBOUL  
Payap University

YUAN-HO HSU  
WANIDA KHONGKIM  
National Cheng Kung University

XUNPENG SHI  
Australian National University

ABDUL HAMID AL-AMIN  
CHAMHURI SIWAR  
Universiti Kebangsaan Malaysia

1515 - 1545 Coffee Break

1545 - 1745 Parallel Sessions 3a, 3b, 3c, 3d, 3e, 3f, 3g

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(RUBY FUNCTION ROOM 2/F)

Chair:  
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Doshisha University

KIYOTAKA SATO  
Yokohama National University  
ZHAOYONG ZHANG  
Edith Cowan University  
MICHAEL MCALEER  
University of Western Australia  
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ABDUL HAMID JAAFAR  
Universiti Sains Malaysia  
ABUL QUASEM AL-AMIN  
Universiti Sains Malaysia  
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CRAIG R. PARSONS  
Yokohama National University  
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JOSEF T. YAP  
Philippine Institute for Development Studies  
**Evaluating Sterilized Intervention under an  
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Discussants:  
DONGHYUN PARK  
Asian Development Bank

CHIA-CHING LIN  
Nanhua University  
KUN-MING CHEN  
National Chengchi University



JUN-ICHI SHINKAI  
AKIRA KOHSAKA  
Osaka University

ESTA LESTARI  
SIWAGE DHARMA NEGARA  
Centre for Economic Research Indonesian Institute of Sciences

Session 3b: **Foreign Direct Investment**  
(AMETHYST FUNCTION ROOM 2/F)

Chair:  
MYRNA AUSTRIA  
De La Salle University

SADAYUKI TAKII  
International Centre for the Study of East Asian Development  
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ERIC D. RAMSTETTER  
International Centre for the Study of East Asian Development  
**Producer Concentration, Conglomerates, Foreign Ownership, and Import Protection: Thai Manufacturing Firms a Decade after the Crisis** #100

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Keio University  
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MASATSUGU TSUJI  
University of Hyogo  
SHOICHI MIYAHARA  
Aoyama Gakuin University  
YASUSHI UEKI  
Bangkok Research Center  
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Discussants:  
REMCO H. OOSTENDORP  
VU University Amsterdam  
TRAN QUOC TRUNG  
Ministry of Planning and Investment, Vietnam  
NGUYEN THANH TUNG  
Management Development Foundation (MDF)

ACHMAD TOHARI  
The Institute for Development of Economic and Finance (INDEF)

KI-SEONG LEE  
JAI-WON RYOU  
Konkuk University

PRATIWI KARTIKA  
Centre for Strategic and International Studies

Session 3c: **International Trade**  
(CITRINE FUNCTION ROOM 2/F)

Chair:  
HIRO LEE  
Osaka University

JAYANT MENON  
Asian Development Bank  
**Dealing with the Proliferation of Bilateral Trade Agreements** #008

WILLIAM E. JAMES  
Asian Development Bank  
**Have Antidumping Measures of Members of the EU and NAFTA Against East Asian Countries Provoked Retaliatory Responses?** #096

NOOR AINI KHALIFAH  
Universiti Kebangsaan Malaysia  
RADZIAH ADAM  
Universiti Sains Malaysia  
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Discussants:  
GANESHAN WIGNARAJA  
ROSECHIN OLFINDO  
Asian Development Bank

SHOICHI HISA  
Hitotsubashi University

CHEE WOOL HOYO  
Universiti Sains Malaysia  
AHMAD ZUBAIDI BAHARUMSHAH  
Universiti Putra Malaysia

Session 3d: **Financial Market**  
(OPAL FUNCTION ROOM 2/F)

Chair:  
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Asian Development Bank

STEPHANIE L. CHAN  
Pricewaterhouse Coopers Transactions Group  
ANDREW ADRIAN Y. PUA  
De La Salle University  
**Is the Special Purpose Vehicles Act Responsible for the Decline in the Non-performing Loan Ratios in the Philippines?** #168

YUAN YUAN  
University of Tokyo  
HIROSHI GUNJI  
Tokyo International University  
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FUMIHARU MIENO  
Kobe University  
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SITI ASTIYAH  
Bank Indonesia  
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Discussants:  
TURKHAN ALI ABDUL MANAP  
RUZITA MOHD AMIN  
SALINA H. KASSIM  
International Islamic University Malaysia

MARLIANA ABDULLAH  
Kolej Universiti Islam Antarabangsa Selangor

SHAHIDA SHAHIMI ABDUL GHAFAR ISMAIL  
Universiti Kebangsaan Malaysia

CHAN TZE-HAW1  
KHONG WYE LEONG ROY  
Multimedia University

TATSUYOSHI MIYAKOSHI  
Osaka University

Session 3e: ***Household Welfare***  
(JADE FUNCTION ROOM 2/F)

Chair:  
ARSENIO BALISACAN  
SEARCA

LAWRENCE B. DACUYCUY  
De La Salle University  
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OLEKSANDR MOVSHUK  
University of Toyama  
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DENNIS S. MAPA  
University of the Philippines  
***Population Dynamics and Household Saving:  
Evidence from the Philippines #078***

MASAYOSHI MARUYAMA  
Kobe University  
LE VIET TRUNG  
Kobe University  
***The Nature of Pavement Economy in Transition  
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Discussants:  
YIING JIA LOKE  
Universiti Sains Malaysia  
CHING SZU FOO

CHRIS MANNING  
ALBERTO POSSO  
Australian National University

ISHAK YUSSOF  
RAHMAH ISMAIL  
ZULKIFLY OSMAN  
Universiti Kebangsaan Malaysia

CHRIS MANNING  
ALBERTO POSSO  
Australian National University

Session 3f: ***Income Inequality***  
(ONYX FUNCTION ROOM 2/F)

Chair:  
RANA HASAN  
Asian Development Bank

JIAN-HONG YANG  
Jiangsu Administration Institute  
JIN FAN  
Jiangsu Administration Institute  
HIROSHI SAKMOTO  
The International Centre for the Study of East Asian Development  
***Dynamic Evolution and the Industrial Reasons for  
"The Poor Getting Poorer, and The Rich Richer"  
in China: 1978-2006 #035***

JIN FAN  
Jiangsu Administration Institute  
YANG JIAN-HONG  
Jiangsu Administration Institute  
SAKMOTO HIROSHI  
The International Centre for the Study of East Asian Development  
***An Analysis on Subregional Convergence by Using  
Distribution Dynamic Method in A Province of  
China: Jiangsu's Study #033***

DANIEL SURYADARMA  
Australian National University  
***Corruption, Public Spending, and Education  
Outcomes: Evidence from Indonesia #002***

Discussants:  
BUDY P. RESOSUDARMO  
Australian National University  
CATUR SUGIYANTO  
Gadjah Mada University  
ARI KUNCORO  
University of Indonesia

FANGLIN SU  
DONGNI JING  
JIEMING LIANG  
RENBING YANG  
Guangxi Normal University

BINZHEN WU  
Tsinghua University

Session 3g: ***Energy, Environment, Underground  
Economy***  
(EMERALD FUNCTION ROOM 2/F)

Chair:  
PETER LEE U  
University of Asia and the Pacific

ABUL QUASEM AL-AMIN  
Universiti Kebangsaan Malaysia  
CHAMHURI SIWAR  
Universiti Kebangsaan Malaysia  
*Macroeconomic Effects of Carbon Dioxide  
Emission Reduction: A Computable General  
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MANABU FUJIMURA  
Aoyama Gakuin University  
*Externalities for Cross-Border Infrastructure  
Projects: Evaluation Challenges* #071

ROBERTO GALANG  
Asian Institute of Management  
IESE Business School  
*State Institutions and Market Development: Why  
Markets Exist in Certain Countries but not in  
Others* #036

LUCINDA DAVID  
Lund University  
*An Institutional Analysis of Political Capital and  
Market Transition* #024

Discussants:  
BUDY P. RESOSUDARMO  
Australian National University  
MONICA FLERIDA B. SANDOVAL  
National Statistical Coordination Board (NSCB)

YUAN XIAOHUI  
FAN JIN  
Jiangsu Administration Institute

JOEL RODRIGUE  
Vanderbilt University

1730 - 1900 EAEA Board Meeting  
(RESTAURANT LE BELLEVUE 27/F)

1930 - 2130 Dinner  
(GALAXIAS FUNCTION ROOM 27/F)

Hosted by:  
Asian Development Bank

Speaker:  
HARUHIKO KURODA  
President, Asian Development Bank

## 16 November 2008

0800 - 1000 Registration

0830 - 0930 Plenary Session 2: *The Philippine Economy Amidst the  
Current Global Crisis*  
(DIAMOND BALLROOM, 1/F)

Chair:  
V. BRUCE TOLENTINO  
The Asia Foundation

Speakers:  
DIWA GUINIGUNDO  
Banko Sentral ng Pilipinas

FELIPE MEDALLA  
University of the Philippines

PONCIANO INTAL, JR.  
De la Salle University

0930 - 1000 Coffee Break

1000-1200 ERIA and Parallel Sessions 4a, 4b, 1c, 4d, 4e, 4f, 4g

Special ERIA Session 1: *Deepening Economic Integration  
and Energy Security*  
(DIAMOND BALLROOM 1/F)

Moderator:  
FUKUNARI KIMURA  
Keio University and ERIA

Opening Remarks:  
HIDETOSHI NISHIMURA  
Executive Director, ERIA

Speakers:  
JENNY CORBETT  
ANU, Australia (TBC)

SO UMEZAKI  
BRC/JETRO

Discussant:  
HYUN-HOON LEE  
Professor, Kangwon National University, Korea

Speakers:  
TOSHITAKA GOKAN  
IDE / JETRO

IKUMO ISONO  
IDE/JETRO

Discussant:  
HO-YEON KIM  
Professor, Sungkyunkwan University (TBC)

Speaker:  
ZENADA YGNACIO MONSADA  
Department of Energy, Philippines (TBC)

Discussant:  
NUWONG CHOLLACOOP  
Bioenergy Laboratory, National Metal and Materials Technology  
Center (MTEC), National Science and Technology Development  
Agency (NSTDA), Thailand (TBC)

Session 4a: *Macroeconomic Policy*  
(RUBY FUNCTION ROOM 2/F)

Chair:  
ALVIN ANG  
University of Sto. Tomas

HSIU FEN HSU  
Osaka University  
***Is a Common Currency Area Feasible for East Asia? A Multivariate VAR Approach*** #160

ANDREW SHENG  
University of Malaya  
KIAN-TENG KWEK  
University of Malaya  
***The Rise of an Asian Currency Bloc: Patterns of Currency Behaviour*** #064

ESTA LESTARI  
Indonesian Institute of Sciences  
SIWAGE DHARMA NEGARA  
Indonesian Institute of Sciences  
***The Spillover Effects of the Subprime Mortgage Crisis to the Asian Stock Markets*** #061

JUN-ICHI SHINKAI  
Osaka University  
AKIRA KOHSAKA  
Osaka University  
***Global Shocks and the Japanese Economy: Structural Changes in the 1990s*** #192

Discussants:  
KIYOTAKA SATO  
Yokohama National University

WING THYE WOO  
Brookings Institution  
Central University of Finance & Economics

NGUYEN THI THUY VINH  
SEIICHI FUJITA  
Kobe University

SOYOUNG KIM  
Korea University  
JAEWOO LEE  
International Monetary Fund

Session 4b: ***Foreign Direct Investment***  
(AMETHYST FUNCTION ROOM 2/F)

Chair:  
RAFAELITA M. ALDABA  
Asia Regional Integration Center

ELIAS HOSSAIN  
University of Rajshahi  
***Impact of Foreign Capital Inflows on Domestic Investment: Evidence from Malaysian Panel Data*** #185

ROBERT E. LIPSEY  
NBER and City University of New York  
FREDRIK SJÖHOLM  
Research Institute of Industrial Economics, Stockholm,  
Örebro University  
***Foreign Takeovers and Employment in Indonesian Manufacturing*** #010

XINZHONG LEE  
Chinese Academy of Social Sciences  
***Spatial Agglomeration of Foreign Direct Investment and Technological Renovation: Empirical Evidence from China*** #112

Discussants:  
MASATSUGU TSUJI  
University of Hyogo  
SHOICHI MIYAHARA  
Aoyama Gakuin University  
YASUSHI UEKI  
Bangkok Research Center, JETRO, Thailand

MITSUYO ANDO  
Keio University

YUN-WING SUNG  
Chinese University of Hong Kong

Session 4c: ***International Trade***  
(CITRINE FUNCTION ROOM 2/F)

Chair:  
LEONARDO LANZONA  
Ateneo de Manila University

HAITAO WU  
Zhongnan University of Economics and Law  
SUSHIL PANDEY  
International Rice Research Institute  
DAYUN TAO  
Yunnan Academy of Agriculture Science  
***Assessment the Impact of Agricultural Technology Adoption on Farmers' Well-being Using Propensity-Score Matching Analysis for Rural China*** #092

JONG-WHA LEE  
Asian Development Bank  
JU HYUN PYUN  
University of California, Davis  
***Does Trade Integration Contribute to Peace?*** #210

LEOW GHIN YIN  
Universiti Sains Malaysia  
SOO Y. CHUA  
Universiti Sains Malaysia  
***An Analysis of Malaysia's Manufactured Exports Competitiveness Between 1980 and 2006*** #065

JUTHATHIP JONGWANICH  
Asian Development Bank  
***Processed Food Exports from Developing Countries: Patterns and Determinants*** #060

Discussants:  
TAO YUAN  
HONG-XV LU  
Nankai University

KAZUHIKO YOKOTA  
International Centre for the Study of East Asian Development

DAVID JAY GREEN  
Asian Development Bank

CHAN TZE-HAW1  
KHONG WYE LEONG ROY  
Multimedia University

Session 4d: **Financial Market**  
(OPAL FUNCTION ROOM 2/F)

Chair:  
TATSUYOSHI MIYAKOSHI  
Osaka University

TAKUMA MATSUDA  
Kanto Gakuin University  
YUAN YUAN  
University of Tokyo  
**Productivity and Banking Reforms in China** #052

RATNA SRI WIDYASTUTI  
University of Indonesia  
LUHUR FAJAR MARTHA  
University of Indonesia  
**Testing Competition among Indonesian Banks** #058

HIDENOBU OKUDA  
Hitotsubashi University  
**Could the Reform Policies Change the Corporate Financing in Indonesia? : Estimating the Differential Effects of Business Groups, Social Factors, and Ownership** #067

PRINCE CHRISTIAN R. CRUZ  
Global Property Guide  
**Factors Affecting Asian Housing Markets** #137

Discussants:  
WAI-CHING POON  
Monash University Malaysia

YUNIARTO HADIWIBOWO  
Hiroshima University  
Ministry of Finance of the Republic of Indonesia

BIENVENIDO S. CORTES  
Pittsburg State University

BIN-JIAN YAN  
Nanjing Agriculture University

JIN FAN  
Jiangsu Administration Institute

Session 4e: **Labor Market**  
(JADE FUNCTION ROOM 2/F)

Chair:  
WINFRED VILLAMIL  
De La Salle University

YIING JIA LOKE  
Universiti Sains Malaysia  
CHING SZU FOO  
**Modeling Computer Ownership and its Usage at Home: A Case in Malaysia** #017

CHRIS MANNING  
Australian National University  
ALBERTO POSSO  
Australian National University  
**Labour Market Outcomes Associated with Rapid Growth: Why Did the Southeast Asian Countries Lag Behind the NIEs?** #170

ISHAK YUSSOF  
Universiti Kebangsaan Malaysia  
RAHMAH ISMAIL  
Universiti Kebangsaan Malaysia  
ZULKIFLY OSMAN  
Universiti Kebangsaan Malaysia  
**Workers Competitiveness in the Malaysian Education Sector** #164

KRISTEN SCHULTZ LEE  
The University at Buffalo  
HIROSHI ONO  
Texas A&M University  
**Specialization and Happiness in Marriage: A U.S.-Japan Comparison** #020

Discussants:  
NGUYEN DUC THANH  
Vietnam National University

AUBREY D. TABUGA  
Philippine Institute for Development Studies

PIRIYA PHOLPHIRUL  
PUNGPOND RUKUMNUAYKIT  
National Institute of Development Administration

LAWRENCE B. DACUYCUY  
De La Salle University

Session 4f: **Disasters and Risk Management**  
(ONYX FUNCTION ROOM 2/F)

Chair:  
XIAGUANG CHEN  
Remin University of China

BUDY P. RESOSUDARMO  
Australian National University  
CATUR SUGIYANTO  
Gadjah Mada University  
ARI KUNCORO  
University of Indonesia  
**Livelihood recovery after natural disaster and the roles of aid: The case of 2006 Yogya earthquake** #118

SAKUYA TAMURA  
Boston Consulting Group  
YASUYUKI SAWADA  
University of Tokyo  
**Consumption Insurance against Unforeseen  
Epidemics: The Case of Avian Influenza in  
Vietnam #104**

YASUYUKI SAWADA  
University of Tokyo  
JONNA P. ESTUDILLO  
Foundation for Advanced Studies on International Development  
NOBUHIKO FUWA  
Chiba University  
KEI KAJISA

International Rice Research Institute  
**How do People Cope With a Natural Disaster? The  
Case of Super Typhoon Milenyo in the Philippines  
#103**

STEPHAN HAGGARD  
University of California-San Diego  
MARCUS NOLAN  
Peterson Institute for International Economics  
East-West Center  
**Famine in North Korea Redux #081**

Discussants:  
TONY IRAWAN M  
Bogor Agricultural University  
DJONI HARTONO  
University of Indonesia

RAHMAH ISMAIL  
ISHAK YUSSOF  
University Kebangsaan Malaysia

SOTHEA OUM  
Monash University

RAGAYAH HAJI MAT ZIN  
Universiti Kebangsaan Malaysia

Session 4g: **Institutions and Human Capital**  
(EMERALD FUNCTION ROOM 2/F)

Chair:  
MICHAEL ALBA  
De La Salle University

DENNIS S. MAPA  
University of the Philippines  
MONICA FLERIDA B. SANDOVAL  
National Statistical Coordination Board (NSCB)  
DAVID JOSEPH EMMANUEL B. YAP II  
University of the Philippines  
**Regional Economic Growth Convergence in the  
Philippines #161**

EUI-GAK HWANG  
The International Centre for the Study of East Asian Development  
**A Close Look at the Urban Growth Sources in  
Japan, Korea and China #022**

DENNIS S. MAPA  
University of the Philippines  
KRISTINE JOY S. BRIONES  
University of the Philippines  
MANUEL LEONARD F. ALBIS  
University of the Philippines  
**What Really Matters for Income Growth in the  
Philippines: Empirical Evidence from Provincial  
Data #174**

GEETA KRISHNASAMY  
Multimedia University  
ELSadig MUSA AHMED  
Multimedia University  
**Regional Productivity Growth Analysis in Asia:  
Application of Data Envelopment Analysis #003**

Discussants:  
SHANDRE M. THANGAVELU  
National University of Singapore

NAGENDRA SHRESTHA  
Japan Bank for International Cooperation

HIDEFUMI KASUGA  
Kansai University

MICHAEL R. CABALFIN  
Philippine Institute for Development Studies

1200 - 1315 Lunch  
(DIAMOND BALLROOM 1/F)

Introduction:  
AKIRA KOHSAKA  
Osaka University

Speaker:  
HIDETOSHI NISHIMURA  
Executive Director, ERIA

1315 - 1515 ERIA and Parallel Sessions 5a, 5b, 5c, 5d, 5e, 5f, 5g

Special ERIA Session 2: **Narrowing Gaps of Economic  
Development**  
(DIAMOND BALLROOM 1/F)

Moderator:  
HANK LIM  
SIIA, Singapore

Speaker:  
TOMOHIRO MACHIKITA  
Institute of Developing Economies, JETRO, Japan, Masatsugu  
Tsuji, University of Hyogo, and Yasushi Ueki, Bangkok Research  
Center, JETRO, Thailand  
**Firm-Level Evidences on Innovation and  
Technology Sources from Indonesia, Thailand and  
Viet Nam #234**

Discussant:  
ARCHANUN KOHPAIBOON  
Thammasat University

Speaker:  
**MASAMI ISHIDA**  
Institute of Developing Economies/JETRO  
***Narrowing Gaps of Economic Development  
between Forerunning ASEAN and CLMV  
Countries #235***

Discussant:  
**WEERAPAT SESSOMBOON**  
Khon Kaen University

Speaker:  
**SHUJI UCHIKAWA**  
Bangkok Research Centre, JETRO  
***Development of Multi-tier Subcontracting System  
in India #236***

Discussant:  
**KESHAB DAS**  
Gujarat Institute of Development Research, India

Session 5a: ***Macroeconomic Policy***  
(RUBY FUNCTION ROOM 2/F)

Chair:  
**GIOVANNI CAPANNELLI**  
Asian Development Bank

**TURKHAN ALI ABDUL MANAP**  
International Islamic University Malaysia  
***Sources of Macroeconomic Fluctuations in China:  
A Structural (Cointegrated) VAR Approach #082***

**DONGHYUN PARK**  
Asian Development Bank  
**GEMMA ESTHER B. ESTRADA**  
Asian Development Bank  
***Are Developing Asia's Foreign Exchange Reserves  
Excessive? An Empirical Examination #011***

**MASAHIRO ENYA**  
Osaka International University  
***Asset Price Fluctuations and Macroeconomic  
Behavior in East Asia #074***

**EIJI OGAWA**  
Hitotsubashi University  
**KENTARO IWATSUBO**  
Kobe University  
***External Adjustments and Coordinated Exchange  
Rate Policy in Asia #014***

Discussants:  
**MASAHIRO ENYA**  
Osaka International University

**EU CHYE TAN**  
University of Malaya

**WONG CHIN-YOONG**  
**ENG YOKE-KEE**  
Universiti Tunku Abdul Rahman.

**HSIUFEN HSU**  
Osaka University

Session 5b: ***Foreign Direct Investment***  
(AMETHYST FUNCTION ROOM 2/F)

Chair:  
**HAL HILL**  
Australian National University

**LUDO CUYVERS**  
University of Antwerp  
**JOSEPH PLASMANS**  
University of Antwerp  
**RETH SOENG**  
University of Antwerp  
**DANIEL VAN DEN BULCKE**  
University of Antwerp  
***Determinants of Foreign Direct Investment in  
Cambodia: Country-Specific Factor Differentials  
#055***

**KAZUYUKI MOTOHASHI**  
University of Tokyo  
**YUAN YUAN**  
University of Tokyo  
***R&D Spillovers from Multinational Firms and  
Domestic Firms: Evidence from Auto Industry and  
Electronics Industry #053***

**PREMA-CHANDRA ATHUKORALA**  
Australian National University  
**TRAN QUANG TIEN**  
Australian National University  
***Foreign Direct Investment in Industrial  
Transition: The Experience of Vietnam #123***

**REMCO H. OOSTENDORP**  
VU University Amsterdam  
**TRAN QUOC TRUNG**  
Ministry of Planning and Investment, Vietnam  
**NGUYEN THANH TUNG**  
Management Development Foundation (MDF)  
***The Changing Role of Non-Farm Households  
Enterprises in Vietnam #070***

Discussants:  
**CASSEY LEE**  
University of Nottingham Malaysia Campus

**XAYPHONE KONGMANILA**  
National University of Laos and Hiroshima University

**SADAYUKI TAKII**  
International Centre for the Study of East Asian Development

**ERIC D. RAMSTETTER**  
International Centre for the Study of East Asian Development

Session 5c: ***International Trade***  
(CITRINE FUNCTION ROOM 2/F)

Chair:  
**WILLIAM E. JAMES**  
Asian Development Bank

AMZUL RIFIN  
University of Tokyo  
Bogor Agricultural University  
***The Effects of Export Tax on Indonesia's Crude  
Palm Oil (CPO) Export Competitiveness*** #047  
HIRO LEE  
Osaka University  
***Japan's Agricultural Protection and the  
Implications for Its FTA Strategies*** #077

CRISTELA GOCE-DAKILA  
De La Salle University-Manila  
SHOSHI MIZOKAMI  
Kumamoto University  
***The Spatial Impact of New Technology on the  
Transport Sector in the Philippines : A General  
Equilibrium Approach*** #191

INNWON PARK  
Korea University  
SOONCHAN PARK  
Kongju National University  
***East Asian Regional Trade Agreement: FTA vs  
CU?*** #037

Discussants:  
JAYANT MENON  
Asian Development Bank

CRISTELA GOCE-DAKILA  
De La Salle University-Manila  
SHOSHI MIZOKAMI  
Kumamoto University

LWOE GHIN YIN  
SOO Y. CHUA  
Universiti Sains Malaysia

NOOR AINI KHALIFAH  
Universiti Kebangsaan Malaysia  
RADZIAH ADAM  
Universiti Sains Malaysia

Session 5d: ***Financial Market***  
(OPAL FUNCTION ROOM 2/F)

Chair:  
ANGELO UNITE  
De La Salle University

CHEU SEE PENG  
CIMB Bank Berhad  
YIING JIA LOKE  
Universiti Sains Malaysia  
***Credit Cardholders: Distinguishing the Good  
Apples from the Bad Apples*** #050

MASAHIRO INOGUCHI  
Kyoto Sangyo University  
***Bank Loans and Real Estate Prices in Asia:  
The Influences of Real Estate Prices on Lending  
Behavior of Domestic Banks*** #046

JAMIL PAOLO S. FRANCISCO  
Ateneo de Manila University  
***Stock Market Volatility and Liberalization*** #007

TURKHAN ALI ABDUL MANAP  
International Islamic University Malaysia  
RUZITA MOHD AMIN  
International Islamic University Malaysia  
SALINA H. KASSIM  
International Islamic University Malaysia  
***The Impact of Monetary Policy on Stock Prices:  
Evidence from Standard and Structural VAR*** #072

Discussants:  
STEPHANIE L. CHAN  
Pricewaterhouse Coopers Transactions Group  
ANDREW ADRIAN Y. PUA  
De La Salle University

YUAN YUAN  
University of Tokyo  
HIROSHI GUNJI  
Tokyo International University

FUMIHARU MIENO  
Kobe University

SITI ASTIYAH  
Bank Indonesia

Session 5e: Education  
(JADE FUNCTION ROOM 2/F)

Chair:  
ANICETO ORBETA  
Philippine Institute for Development Studies

PHANHPAKIT ONPHANHDALA  
Kobe University  
TERUKAZU SURUGA  
Kobe University  
***Farmer Education, Agricultural Efficiency and  
Rural Development in Lao PDR*** #129

CHIH-HAI YANG  
National Central University  
CHUN-HUNG A. LIN  
Tamkang University  
CHIEN-ZU LIN  
National Central University  
Return to Graduate Education in Taiwan: The Impact of  
Graduate Education Expansion #120

CHRIS SAKELLARIOU  
Nanyang Technological University  
***Demand for Skills, Supply of Skills and Returns to  
Schooling in Cambodia*** #068

DAVID NEWHOUSE  
World Bank Office, Jakarta  
DANIEL SURYADARMA  
Australian National University  
***The labor market effects of vocational education in  
Indonesia*** #073



Discussants:  
**OLEKSANDR MOVSHUK**  
University of Toyama

**DENNIS S. MAPA**  
University of the Philippines

**MASAYOSHI MARUYAMA**  
Kobe University

**LE VIET TRUNG**  
Kobe University

**HIROSHI ONO**  
Texas A&M University

Session 5f: **Disasters and Risk Management**  
(ONYX FUNCTION ROOM 2/F)

Chair:  
**ZIN RAGAYAH**  
National University of Malaysia

**MASAHIRO SHOJI**  
University of Tokyo  
**Does Contingent Repayment in Microfinance Help  
the Poor During Natural Disasters?** #080

**PRIJONO TJIPTOHERIJANTO**  
University of Indonesia  
**Capacity Management for Disaster Risk  
Reduction: Lesson Learned from Tsunami in  
Indonesia** #025

**GIANG THANH LONG**  
National Economics University  
**The Vulnerability of Vietnamese Elderly to  
Poverty: Determinants and Policy Implications** #039

**DINAH PURA T. DEPOSITARIO**  
University of the Philippines Los Baños  
**RODOLFO M. NAYGA, JR.**  
University of Arkansas  
**XIMING WU**  
Texas A&M University  
**TIFFANY P. LAUDE**  
University of the Philippines Los Baños  
**Effects of Information on Consumers' Willingness  
to Pay for Golden Rice** #150

Discussants:  
**JIAN-HONG YANG**  
Jiangsu Administration Institute  
**JIN FAN**  
Jiangsu Administration Institute  
**HIROSHI SAKMOTO**  
The International Centre for the Study of East Asian Development

**JIN FAN**  
Jiangsu Administration Institute  
**JIAN-HONG YANG**  
Jiangsu Administration Institute  
**HIROSHI SAKMOTO**  
The International Centre for the Study of East Asian Development

1515 - 1545

1545 - 1745

**JOSEPH J. CAPUNO**  
University of the Philippines

**DANIEL SURYADARMA**  
Australian National University

Session 5g: **Growth, Poverty and Development**  
(EMERALD FUNCTION ROOM 2/F)

Chair:  
**EMMANUEL ESGUERRA**  
University of the Philippines

**YUAN-HO HSU**  
National Cheng Kung University  
**WANIDA KHONGKIM**  
National Cheng Kung University  
**Government Human Capital Investment and  
Economic Growth: A Case Study of the Four Asian  
Tigers** #106

**MICHAEL R. CABALFIN**  
Philippine Institute for Development Studies  
**Income, Poverty, and Human Development A  
Simultaneous-Equations Approach** #097

**JESUS C. DUMAGAN**  
Philippine Institute for Development Studies  
**Implementing the US Chain-Type GDP Index  
Framework for Cross-Country GDP Growth  
Comparisons: Application to ASEAN Countries**  
#094

**HIDEFUMI KASUGA**  
Kansai University  
**Aid Allocation across Sectors: Does Aid Fit Well  
with Recipients' Development Priorities?** #031

Discussants:  
**JESUS C. DUMAGAN**  
Philippine Institute for Development Studies

**MANABU FUJIMURA**  
Aoyama Gakuin University  
**RAMESH ADHIKARI**  
Asian Development Bank

**ROBERTO GALANG**  
Asian Institute of Management and IESE Business School

**LUCINDA DAVID**  
Lund University

Coffee Break

Parallel Sessions 6a, 6b, 6c, 6d, 6e, 6f, 6g

Session 6a: **Macroeconomic Policy**  
(RUBY FUNCTION ROOM 2/F)

Chair:  
**CELIA REYES**  
Philippine Institute for Development Studies

SOYOUNG KIM  
Korea University  
JAEWOO LEE  
International Monetary Fund  
***International Macroeconomic Fluctuations: A New  
Open Economy Macroeconomics Interpretation***  
#049

CHIA-CHING LIN  
Nanhua University  
KUN-MING CHEN  
National Chengchi University  
***The Impact of Exchange Rate Movements on  
Foreign Direct Investment: Are There Third  
Country Effects?*** #182

WONG CHIN-YOONG  
Universiti Tunku Abdul Rahman  
ENG YOKE-KEE  
Universiti Tunku Abdul Rahman  
***Globalization of Production Structure and  
Macroeconomic Dynamics*** #107

ENG YOKE-KEE  
Universiti Tunku Abdul Rahman  
WONG CHIN-YOONG  
Universiti Tunku Abdul Rahman  
MUZAFAR SHAH HABIBULLAH  
Unievrstti Putra Malaysia  
***Quantifying the Size of Underground Economy:  
A Revisit to the Currency Demand Approach  
DSGE Model*** #105

Discussants:  
HAN-MIN HSING  
National Ping Tung Institute of Commerce

ABDUL HAMID JAAFAR  
Universiti Sains Malaysia  
ABUL QUASEM AL-AMIN  
Universiti Sains Malaysia

TAIZO MOTONISHI  
Kansai University

GEMMA ESTHER B. ESTRADA  
Asian Development Bank

Session 6b: ***Foreign Direct Investment***  
(AMETHYST FUNCTION ROOM 2/F)

Chair:  
ROUSELLE LAVADO  
Philippine Institute for Development Studies

ACHMAD TOHARI  
The Institute for Development of Economic and Finance  
***Foreign Direct Investment and International Tax  
Competition in East and Southeast Asian  
Countries*** #154

HIDEAKI SAKAWA  
Osaka University  
NAOKI WATANABEL  
Osaka University

***The Relationship between Managerial  
Compensation and Business Performance in  
Japan: New Evidence Using Micro Data*** #146

QUN LIU  
Japan Bank for International Cooperation Institute  
***Corporate Financial Structure and Investor  
Protection*** #005

PRATIWI KARTIKA  
Centre for Strategic and International Studies  
***Industrial Agglomeration in Indonesia:  
Its Presence and Condition*** #132

Discussants:  
AYAKO OBASHI - Keio University

ROBERT E. LIPSEY  
NBER and City University of NY  
FREDRIK SJÖHOLM  
Research Institute of Industrial Economics & Örebro University

KI-SEONG LEE  
Konkuk University  
JAI-WON RYOU  
Konkuk University

XINZHONG LEE  
Chinese Academy of Social Sciences

Session 6c: ***Trade Liberalization and Industry***  
(CITRINE FUNCTION ROOM 2/F)

Chair:  
FERNANDO ALDABA  
Ateneo de Manila University

GANESHAN WIGNARAJA  
Asian Development Bank  
ROSECHIN OLFINDO  
Asian Development Bank  
***Determinants of Export Performance in a Giant  
Economy: Evidence from Over 1,000 firms in  
China*** #084

SHOICH HISA  
Hitotsubashi University  
***Trade Pattern and Infrastructure of Road and ICT  
in East Asia*** #202

CHEE WOUI HOY  
Universiti Sains Malaysia  
AHMAD ZUBAIDI BAHARUMSHAH  
Universiti Putra Malaysia  
***The Impact of Exchange Rate Volatility on Trade  
Flows for East Asian Countries*** #190

ARCHANUN KOHPAIBOON  
Thammasat University  
***Export Creation of AFTA and the Response of the  
Private Sector: Evidence from Thai Manufacturing***  
#038

Discussants:  
**HAITAO WU**  
Zhongnan University of Economics and Law  
**SHIJUN DING**  
Zhongnan University of Economics and Law  
**SUSHIL PANDEY**  
International Rice Research Institute  
**DAYUN TAO**  
Yunnan Academy of Agriculture Science

**JONG-WHA LEE**  
Asian Development Bank  
**JU HYUN PYUN**  
University of California, Davis

**JUTHATHIP JONGWANICH**  
Asian Development Bank

**CHAN HYUN SOHN**  
Kangwon University

Session 6d: **Financial Market**  
(OPAL FUNCTION ROOM 2/F)

Chair:  
**JESUS DUMAGAN**  
Philippine Institute for Development Studies

**MARLIANA ABDULLAH**  
Kolej Universiti Islam Antarabangsa Selangor  
**SHAHIDA SHAHIMI ABDUL GHAFAR ISMAIL**  
Universiti Kebangsaan Malaysia  
**Operational Risk in Islamic Banks: Examination of Issues** #188

**TZE-HAWL CHAN**  
Multimedia University  
**KHONG WYE LEONG ROY**  
Multimedia University  
**Business Cycle Correlation and Output Linkages among the Asia Pacific Economies** #004

**WAI-CHING POON**  
Monash University  
**The Augmented Monetary Conditions Index in Philippines** #086

**KI-SEONG LEE**  
**JAI-WON RYOU**  
Konkuk University  
**Integration and Interdependence of East Asian Financial Markets after the Asian Financial Crisis** #143

Discussants:  
**TAKUMA MATSUDA**  
Kanto Gakuin University  
**YUAN YUAN**  
University of Tokyo

**RATNA SRI WIDYASTUTI**  
University of Indonesia  
**LUHUR FAJAR MARTHA**  
University of Indonesia

**HIDENOBU OKUDA**  
Hitotsubashi University

**KENTARO IWATSUBO**  
Kobe University

Session 6f: **Fiscal Policy Issues**  
(ONYX FUNCTION ROOM 2/F)

Chair:  
**MELLY PARAISO**  
Polytechnic University of the Philippines

**FANGLIN SU**  
Guangxi Normal University  
**DONGNI JING**  
Guangxi Normal University  
**JIEMING LIANG**  
Guangxi Normal University  
**RENBING YANG**  
Guangxi Normal University  
**An Empirical Analysis on China's Provincial R&D Knowledge Spillovers on using GWR** #156

**BINZHEN WU**  
Tsinghua University  
**Adverse Selection and Moral Hazard for Health Insurance: Evidence from Chinese New Cooperative Medical Scheme** #111

**JOSEPH J. CAPUNO**  
University of the Philippines  
**The spread of local government innovations in the Philippines under decentralization** #211

Discussants:  
**SAKUYA TAMURA**  
Boston Consulting Group  
**YASUYUKI SAWADA**  
University of Tokyo

**YASUYUKI SAWADA**  
University of Tokyo  
**JONNA P. ESTUDILLO** - Foundation for Advanced Studies on International Development  
**NOBUHIKO FUWA** - Chiba University  
**KEI KAJISA** - International Rice Research Institute

**STEPHAN HAGGARD** - University of California-San Diego  
**MARCUS NOLAND** - Peterson Institute for International Economics and the East-West Center

Session 6g: **Regional Growth**  
(EMERALD FUNCTION ROOM 2/F)

Chair:  
**MANABU FUJIMURA**  
Aoyama Gakuin University

XIAOHUI YUAN

Jiangsu Administration Institute

JIN FAN

Jiangsu Administration Institute

*Analysis on Industrial Upgrading and Technical  
Progress in Yangtze River Delta Region of China  
during Globalization: 1997-2005* #032

JOEL RODRIGUE

Vanderbilt University

*Foreign Direct Investment, Exports and Aggregate  
Productivity* #013

Discussants:

EUI-GAK HWANG

The International Centre for the Study of East Asian Development

DENNIS S. MAPA

University of the Philippines

KRISTINE JOY S. BRIONES

University of the Philippines

MANUEL LEONARD F. ALBIS

University of the Philippines

## ABSTRACTS

## **Plenary Session 1: Keynote Address**

### ***Global Imbalances After the Financial Crisis***

BARRY BOSWORTH  
Brookings Institute

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## **ADB Session: Inclusive Development**

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SHIKHA JHA  
Asian Development Bank  
AASHISH MEHTA

University of California-Santa Barbara

### ***Effectiveness of Public Spending: The Case of Rice Subsidies in the Philippines #175***

In response to the spurt in rice prices in 2008, the rice subsidy program budget for the National Food Authority was multiplied 5-fold to 2.5% of GDP. NFA is the largest recipient of government subsidy, but also the largest loss-making government corporation. Latest household expenditure data show that the program fares well on some design elements. But despite all citizens being eligible, only 16% of them use it. Significant exclusion of the poor and leakage to the non-poor reduce its targeting effectiveness. The gap between consumption and NFA supply is large. To transfer \$1 of subsidy costs NFA \$2.2. The program attracts lower participation from farmers and those with higher incomes or fewer rice-eating members. For those who do not use the program, nonparticipation is involuntary, arising from physical limitations. Households in better governed regions have a higher propensity to use the program. Those buying NFA rice in cities buy more than their rural counterparts. The program does not act as a safety net against unemployment, as much as for consumption support. It can better reach the poor if its inclusion and exclusion errors are reduced, its access and availability to the poor improved, and the quality of governance bolstered.

Keywords: Food-based safety nets, rice subsidy, targeting, leakage, program performance, Philippines  
JEL Categories: I32, Q18

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TUN LIN  
Asian Development Bank  
JUZHONG ZHUANG  
Asian Development Bank  
YARCIAD

Asian Development Bank

### ***What Drives China's Provincial Income Inequality: Evidence from Grouped Income Data #176***

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HYUN H. SON  
Asian Development Bank  
JHIEDON FLORENTINO  
Asian Development Bank

### ***Ex-ante Impact Evaluation of Conditional Cash Transfer Program on School Attendance and Poverty: The Case of the Philippines #177***

This paper provides an ex-ante assessment of the implementation of the conditional cash transfer (CCT) program in the Philippines, called Pantawid Pamilyang Pilipino. In the study, we investigate the impact of the CCT on current poverty, and the impact of this extra money on school attendance under different targeting criteria – such as universal targeting, geographical targeting, targeting of the poor, and progressive targeting – and transfer amounts. In the poverty simulation approach, it is assumed that transfers given to children are pooled within families and distributed to each member so that all enjoy the same level of welfare. As for school attendance, the study evaluates the potential impact of changes in program design – with alternative benefit levels and targeting scenarios – on the behavioral response and the welfare of households. The simulation is carried out based on micro-econometrically estimated models of household behavior.

Keywords: Demand for Schooling, Child Labor, Human Capital, Cash Transfers, Targeting, Poverty  
JEL Categories: J22, J13, J24, I38, I32

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RANA HASAN  
Asian Development Bank  
KARL ROBERT L. JANDOC  
Asian Development Bank

### ***Trade and Wage Inequality in the Philippines: Evidence from Labor Force Surveys #178***

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DONGHYUN PARK  
Asian Development Bank

### ***Aging Asia's Looming Pension Crisis #180***

Due to population ageing, weakening of family-based support and other factors, old age income support is becoming an issue of growing importance throughout Asia. This is especially true in East Asia and Southeast Asia where the demographic transition is already well underway. In this paper, we provide a broad overview of the pension systems of China, Indonesia, Korea, Malaysia, Philippines, Singapore, Thailand and Vietnam. More significantly, we diagnose those pension systems and identify their major weaknesses. We find the key systemic failures to be low coverage, inadequate benefits, lack of financial sustainability, and insufficient support for the elderly poor. We conclude the paper with some specific policy directions for pension reform which will strengthen the capacity of Asian pension systems to deliver economic security for the large and growing army of the elderly which loom on the region's horizon.

Keywords: Pension, social security, Asia  
JEL Categories: H55

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## **Session 2a: Macroeconomic Policy**

EU CHYE TAN  
University of Malaya

### ***Inflation and Economic Growth in ASEAN #085***

The objective of this paper is to ascertain whether there is any trade-off between inflation and economic growth in the founding members of ASEAN namely Malaysia, Singapore, Thailand, the Philippines and Indonesia and Japan and South Korea. This in turn could form a basis for addressing the question as to which of them could sustainably indulge in some monetary cooperation with one another,

from the vantage point of macroeconomic policy discipline. It is a concern that countries that aggressively pursue the goal of economic growth may sacrifice the objective of price stability. High rates of inflation could in turn disrupt the debt and foreign exchange markets with region-wide effects. The robustness of any regional reserve pooling mechanism or more generally any regional liquidity enhancement mechanism hinges on the pursuit of sound macroeconomic policies amongst subscribing nations.

The purpose of the paper is met by integrating the Phillips curve framework with Okun's theory. Quarterly data of these countries spanning generally from 1991 through 2006/7 are mobilized for the purpose. The empirical results suggest that a trade-off albeit small exists between economic growth and inflation in Singapore, South Korea and Thailand after the 1997/98 Asian financial crisis years while none in the other countries. In the wake of these findings, one might somehow infer that monetary cooperation is sustainable amongst these sample countries.

Keywords: Growth, Inflation, Tradeoff  
JEL Categories: E31 E24 E60

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NGUYEN THI THUY VINH

Kobe University

SEIICHI FUJITA

Kobe University

***The Effect of the Real Exchange Rate on Output and Inflation:  
Evidence from Vietnam #145***

This is the first study that examines the impact of the real exchange rate fluctuation on economic performance in Vietnam using VAR approach. The study shows that although the main sources of variance in output and price level are "own shocks", innovations in the real exchange rate account for a higher proportion in the variation of output than that of price level. A real devaluation has positive impact on both output and inflation. The devaluation shock may affect inflation and output growth via raising money supply and improving trade balance. However, the real exchange rate changes do not have significant effect on output in the long run.

Keywords: VAR model, impulse response functions, variance decompositions, real exchange rate, output, inflation, Vietnam.  
JEL classification codes: C32, F30

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HAN-MIN HSING

National Ping Tung Institute of Commerce

***The role of currency denomination in the effect of exchange rate  
changes on trade balance #131***

The effect of exchange rate changes on trade balance concerns many East Asian economies where foreign trade plays major role in their economic growth. This study examines the effect of exchange rate changes on trade balance between three East Asian (Japan, Korea and Taiwan) and two Euro zone (Austria and Netherlands) economies. In particular, the effects before and after the adoption of Euro in 1999 are compared. Since currency denomination can change the short run effect on trade balance, special attention has been given to the currency contract and value effects from depreciation. The cointegration test and generalized impulse response function from the VEC model are applied. In general, the shapes of trade ratio changes after real depreciation are as expected either in the period before or after 1999. Although the adoption of Euro as invoicing currency has been gradually increased for the three East Asian economies, the effect of real depreciation shall not be changed as long as the share of domestic/foreign currency invoicing is not changed.

Keywords: currency denomination, exchange rate changes, trade balance, Euro.  
JEL Categories: F31, F41

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TAIZO MOTONISHI

Kansai University

***Are the East Asian Currencies Still Misaligned?: An Analysis Based  
on the Balassa-Samuelson Model Using Data from 118 countries #149***

10 years after the currency crisis, the degree of exchange rate misalignment is still an issue of contention for East Asian Countries. Although this study uses a common framework to estimate the degree of the misalignment, the data are applied in a different manner. The feature of the data application is twofold: the utilization of price level data and the simultaneous analysis of the exchange rates of many countries. Moreover, the regression framework is constructed in order to decompose the nominal exchange rate into each determinant. The regression result shows that in 2005, the Korean won was at about the equilibrium level, the Chinese yuan was undervalued by about 35%, the Thai baht and the Philippine peso was also largely undervalued, and the Malaysian ringgit and Indonesian rupiah was at about the equilibrium level.

Keywords: East Asia, Equilibrium Exchange Rate, Misalignment  
JEL Categories: F31

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***Session 2b:  
Foreign Direct Investment***

MITSUYO ANDO

Keio University

FUKUNARI KIMURA

Keio University

***The Impact of Production Networking on Domestic Operations: The  
Case of Japan #186***

This paper empirically investigates the pattern of globalizing corporate activities and their domestic operations and trade, using the firm-level panel data of Japanese firms in 1998-2004.

Although journalistic literature often claims that expanding corporate activities in lower-income countries are prone to reduce domestic corporate activities in high-income countries, the effect is not necessarily negative. Our paper finds that manufacturing firms expanding operations in East Asia are more likely to increase domestic employment than other manufacturing firms at a higher growth rate. As for domestic establishments and affiliates, manufacturing firms expanding operations in East Asia seem to slightly reduce the number compared with other firms, suggesting that the expansion of operations in East Asia is utilized as an opportunity to reshuffle domestic corporate structure. Furthermore, firms expanding operations in East Asia tend to intensify export/import activities with East Asia than other firms, indicating the complementarity between trade and FDI. This is another supporting evidence for expanding fragmentation of production by Japanese firms and their involvement in further development of production/distribution networks in East Asia

Japanese manufacturing firms globalizing corporate activities seem to retain larger domestic operations than other firms, effectively utilizing international production/distribution networks in East Asia.

Keywords: Japanese manufacturing firms, fragmentation, domestic operations, production networks in East Asia  
JEL Categories: F15, F16, F21, F23, L2

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XAYPHONE KONGMANILA

National University of Laos

Hiroshima University

***On the Relationship between Innovation and Export Behavior: An Empirical Investigation of Lao Garment Firms #051***

Research on the role of innovation as important factor for creating and maintaining competitiveness of nations and firms has long been popularized among scholars and policy makers. The impact of innovation on exporting has been investigated in many countries. However, this issue has paucity of research in the Lao PDR. This study empirically investigates whether or not innovation performed by Lao garment firms determines their exporting behaviors. Utilizing the Probit and Tobit regression to analyze the data from the recent survey of industrial cluster development of Lao garment industry in 2007, the empirical results show that innovation as measured directly by “new product” and “new production process” have positive impact not only on export probability but also export intensity in the case of Lao garment firms. This implies that Lao garment firms who become the innovators have high probability to be exporters. Moreover, among exporters who are innovators outperform non-innovators in terms of export intensity. In addition, this study also finds that Lao garment exporters enjoy more competitive advantage due to lower labor cost. The findings from this study have important policy implications regarding how the government can support Lao garment firms to be innovators in order to sustain export performance.

Keywords: Innovation, Export Behavior, Garment Industry, Lao PDR  
JEL Code: F2, L2, O3

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CASSEY LEE

University of Nottingham Malaysia Campus

***Innovation, Productivity and Exports: Firm-Level Evidence from Malaysia #040***

The objective of this paper is to empirically examine the relationship between innovation, productivity and trade intensity using firm-level data from the Malaysian manufacturing sector. Evidence from this paper suggests that exporters do have higher productivity levels compared to non-exporters. Regressions on production functions indicate that exporting may not necessarily be an important driver of productivity growth compared to capital and labour. Estimates from structural models show that the mechanisms by which exporting may influence productivity in Malaysia is one in which productivity gains are driven primarily by process innovation (rather than product innovation) which, in turn, is influenced by exporting through the decision to undertake R&D.

Keywords : Innovation, Productivity, Trade  
JEL Classification: F14, L11, L60

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HARYO ASWICAHYONO

Australian National University

DIONISIUS NARJOKO

Australian National University

***Industrialization after a Deep Economic Crisis: Indonesia #018***

Indonesia experienced a deep economic contraction as a result of the 1997-98 Asian crisis. This paper examines trends and patterns in the country's industrial sector in the wake of the crisis, and against the backdrop of the changed policy and institutional environment. Prior to the crisis Indonesia was one East Asia's fastest industrializers, whereas its industrial growth is now one of the slowest. Moreover, prior to the crisis, manufacturing was a 'leading sector' in the economy, whereas it is now growing at about the average. We examine how and why the record within manufacturing is diverse. Also unit labour costs rose sharply immediately following the crisis. In consequence, industrialization has also become less employment elastic, and employment in the formal sector has hardly increased. Foreign ownership has risen substantially, while concentration levels remain largely unchanged. Industrial exports have performed indifferently, notwithstanding the large boost to competitiveness following the sharp depreciation of the Rupiah in 1997-98. The process of small firms 'graduating' to larger units has slowed, and most of the output growth is now coming from existing firms rather than new entrants. We link these outcomes both to general, economy-wide factors as well as a range of particular policy interventions that have had sector-specific effects.

Key words: Indonesia, industrialization, economic crises.  
JEL codes: L16, O14

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***Session 2c:  
International Trade***

TAO YUAN

Nankai University

HONG-XV LU

Nankai University

***An Empirical Study on the Relationship between Anti-dumping Actions against China and China's Foreign Direct Investment #136***

Using a pooled data set covering Chinese FDI in 14 countries which always initiate anti-dumping cases against China from 2003 to 2006, we find that Chinese FDI is primarily affected by anti-dumping investigations by host countries, labor cost in host countries, and other factors like export and market size.

From 2003 to 2006, the number of anti-dumping measures against China kept increasing, and Chinese enterprises begun to be engaged in FDI to avoid these trade barriers. There is strong positive correlation between anti-dumping investigations against China and Chinese FDI outflows. Especially when developing countries initiate anti-dumping investigations against China, the possibility of Chinese enterprises increasing FDI to these countries is higher than to developed countries, because developing countries have the similar economic structure and labor cost advantage as China, and it is more easily for Chinese firms to transfer their plants to these countries.

The higher the labor cost in the host country, the less China's FDI to it, as labor-intensive products are main products suffering from anti-dumping measures. When labor cost is high in anti-dumping initiating countries, Chinese firms would like to invest in a third country, through which Chinese firms enter the market of anti-dumping initiating countries by export.

Keywords: Anti-dumping (AD); Foreign Direct Investment (FDI); China  
JEL Categories: F13, F21

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DAVID JAY GREEN  
Asian Development Bank

***The Role of ASEAN Economic Community as a Commitment to Policy Certainty #101***

In January 2007, the Association of Southeast Asian Nations (ASEAN) committed to establish the ASEAN Economic Community (AEC) by 2015, five years earlier than envisaged. The AEC represents a response to a Southeast Asian middle- and near middle-income (MNMIs) country conundrum: modest growth—difficult enough to maintain—is inadequate to meet political goals. Although growing faster than the MNMIs, the less developed Southeast Asian countries start from such a low standard of living that even a sustained continuation of their recent growth would leave many people in poverty.

Development prospects in Southeast Asia since the 1997 Financial Crisis have been constrained by an absence of policy certainty, particularly in the areas of investment and trade. The commitment to the AEC, in the Southeast Asian political context, could fill this credibility gap, thus providing a ‘tipping point’ for dramatically expanding trade and investment. Experience in mainland Southeast Asia suggests that barriers to trade exist as a result of a lack of trade facilitating infrastructure. Supporting trade facilitation can be a powerful stimulant to regional trade creation.

Key words: Economic Growth; Southeast Asia; investment; trade policy; ASEAN Economic Community  
JEL Categories: O24, E22, O53

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SHUJIRO URATA  
Waseda University  
KAZUHIKO YOKOTA

International Centre for the Study of East Asian Development

***The Causes of Parts and Components Trade in East Asia - Is East Asia unique and if so, why? #089***

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ERWIN L. CORONG  
International Food Policy Research Institute

RACHEL REYES  
De La Salle University  
ANGELO TANINGCO

De La Salle University

***Poverty Impacts of Preferential Trading Arrangement and Most-Favored-Nation Treatment on the Philippines: A Computable General Equilibrium Analysis #088***

The Philippines has been actively participating in preferential trading arrangements and in the multilateral trading system since the 1990s. However, the poverty effects of these trading arrangements on this Southeast Asian economy are not yet fully known. This paper, using a top-down representative household computable general equilibrium model, finds that actively pursuing multilateral and preferential trade liberalization policies such as reducing Most-Favored-Nation (MFN) and ASEAN Free Trade Area's Common Effective Preferential Tariff rates and using direct income tax as a compensatory tax mechanism to offset tariff revenue loss would reduce national poverty. Furthermore, the poor and less-skilled households in the country, specifically, agricultural and industrial workers, will benefit from these trade liberalization measures as their poverty levels go down due to a relatively large decline in consumer prices. In this regard, this paper proposes that the Philippine government further promote its preferential and multilateral trade

commitments in order to fully reap the economic rewards from trade liberalization, and most importantly, help reduce poverty.

Keywords: Computable general equilibrium, international trade, social accounting matrix, Philippines, poverty

JEL Categories: D33, D58, F13, F14, I32

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***Session 2d:  
Financial Market***

TATSUYOSHI MIYAKOSHI  
Osaka University

***Mechanism Design Theory for International Finance: Incorporating International Public Goods and International Central #127***

The purpose of this paper is to produce an explicit rule of planner of country h on world-wide income redistribution and to investigate the total effects of income transfer among N countries on national welfare of country h. Theoretical finding based on the information on prices and income for all countries is that if the cross productivities of countries except for country i is larger than the average of the cross productivities (this positive difference is called as productive advantage for country i), country i becomes an income receiver. When there are more than two receivers, the ratio of received income for country i among the receivers is the ratio of productive advantage. Theoretical finding adding the information on the utility function for all countries is that the planner of country h can decide the received and sent income levels for all countries, given the total cost of income transfer across countries. If the planner approximate the utility function as a simple form, the planner can decide the level of income transfers based on well know prices and incomes for all countries as a practical transfer.

Keywords: Planner; Income Transfers; International Public Goods; Productivity Differentials

JEL Categories: F10; H41; F30

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YUNIARTO HADIWIBOWO

Ministry of Finance of the Republic of Indonesia

***Ricardian Equivalence in Developing Countries: Fiscal Policy, Private Consumption and Investment in Indonesia #069***

This study reviews the impact of fiscal policy on private consumption and investment in Indonesia. Ricardian-Barro proposition suggests fiscal policy does not have real impact on consumption and investment. On the other hand, Keynesian perspective believes fiscal policy can influence consumption and investment. The dataset is built according to the budget periods. We find that private consumption and investment are cointegrated with their determinants. Using Vector Error Correction Model and specification derived from Augmented Consolidated Approach by Kormendi (1983), we find long-run relationship among private consumption, income, government spending, tax, wealth and government external debt. In addition, long-run relationship can also be seen among investment, income, government spending and tax. Interestingly, fiscal policy seems to be insignificant in the short-run. The results suggest that Keynesian perspective can be observed in the long-run, while Ricardian-Barro proposition cannot be rejected in the short-run. Short-term government spending and tax measures cannot significantly influence consumption and investment. Implication is fiscal policy should be directed toward medium and long-term objectives rather than focusing only for the short-term measures.

Keywords: Ricardian Equivalence, Keynesian, fiscal policy, private consumption,



investment, developing countries, cointegration, vector error correction model  
JEL Categories: E62, H30

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**BIN-JIAN YAN**  
Nanjing Agriculture University  
**JIN FAN**  
Jiangsu Administration Institute

***An Empirical Macro-closure Study of CGE Model for China--Choice of Suitable Theory for Understanding China's Macro-economy #034***

The choice of macro-closure in Computable General Equilibrium (GGE) model is essentially the choice of macroeconomic theory. This paper reviews Sen's originated research on macro-closure (Sen, 1960) followed by some theoretical and empirical studies in CGE models. Then, the paper models the simulations of China's CGE model under different macro closures after the standard CGE model by Lofgren et al.(2002). Assuming that China economy has its own trend, the paper takes China's joining in the World Trade Organization (WTO) as an exogenous shock, and computes the real impact of this shock on economy, and makes it as the economic facts. After that, the paper has drawn the results of economic impact under different choices of Macro-closure. Finally, the paper uses Technique for Order Preference by Similarity to Ideal Solution (TOPSIS) method to choose the simulation which is the nearest to the economic facts, and some tests have been made for different macroeconomic theories application further. The result shows that the simulation under Johansen closure based on unemployment is more appropriate to the fact in China, and the Keynesian economic theory could explain Chinese economic phenomenon more powerfully. Since Chinese economy is investment-oriented, savings depends on investment, and the structural characteristics of China economy leads to unemployed labor.

Keywords: Macroclosure; WTO; Suitable Theory; China.  
JEL: C68, B23, E17

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**BIENVENIDO S. CORTES**  
Pittsburg State University  
***The Role of Money in the Monetary Policy of the Philippines #009***

This paper applies the vector autoregression method to analyze the impact of unexpected monetary policy shocks on manufacturing output in the Philippines. A four-variable VAR model consisting of manufacturing output, CPI, M1, and T-bill rate is estimated for two different time periods, 1981Q1-1997Q2 (pre-Asian crisis) and 1997Q3-2007Q4 (post-Asian crisis). Comparing the VAR-generated impulse responses and variance decompositions of output for the two periods, the findings indicate that the monetary aggregate, M1, is a more consistent indicator of monetary policy than the Treasury bill rate primarily during the pre-Asian crisis period. The predictive ability of money declines dramatically after 1997 while the contributions of the interest rate and the exchange rate as policy instruments are rising. Even so, money and other economic conditions continue to provide useful information in determining national monetary policy.

Keywords: Monetary policy, vector autoregression, variance decomposition, impulse response  
JEL Categories: E51, E52, E58

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***Session 2e:***

***Labor Market***

**FUTOSHI YAMAUCHI**  
IFPRI  
**MEGUMI MUTO**  
JICA Research Institute  
**RENO DEWINA**  
IFPI  
**SONY SUMARYANTO**  
ICASEPS

***Spatial Networks, Incentives and the Dynamics of Village Economy: Evidence from Indonesia #114***

This paper examines the impact of spatial connectivity development on household income growth and non-agriculture income share, combining household panel data and village census in Indonesia. Empirical results show that the impacts of the improvement of local road quality in the area (positively correlated with transportation speed) on income growth and transition to non-agricultural activities depends on the distance to economic centers and household education. In particular, post-primary education significantly increases the benefit from the local spatial connectivity improvement in remote areas. Education and local road quality are complementary, increasing income growth. Therefore, the gain from the local connectivity improvement (measured by the average road quality) depends on village remoteness and the initial household-level endowment.

Keywords: Income growth, Spatial Connectivity, Education, Indonesia  
JEL Categories: O12, R40

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**NGUYEN DUC THANH**  
Vietnam National University  
***Economywide Effects of International Remittances: A Computable General Equilibrium Assessment for Vietnam #122***

This research investigates economywide effects of international remittances on the source countries, where Vietnam is taken as a case study. By using computable general equilibrium (CGE) modeling techniques, we investigate, for the first time, the effects of international remittances on the Vietnamese economy as a whole. Findings from the paper strengthen the view that effects of remittances on developing countries are mixed and complicated. The results show that in the context of Vietnam, where the growing remittance inflows are combined with the economy's increasing integration into the international markets, all factor prices tend to rise, and industrial sectors are strongly influenced and tend to contract. This implies that the long-run effects of remittances may be negative on the supply side, and may offset their short-run positive effects on the demand side.

Keywords: remittances, computable general equilibrium, macroeconomics, financial flows, Vietnam  
JEL Categories: F22, F24, F31, F40, D58

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**AUBREY TABUGA**  
Philippine Institute for Development Studies  
***International Remittances and Household Expenditures: The Philippines Case #093***

This paper examines the influence of overseas remittances to patterns of family expenditures in the Philippines using a matched dataset of the Family Income and Expenditure Survey (FIES) and Labor Force Survey (LFS). Specifically, it

is interesting to examine if families with remittances tend to invest more on say education, healthcare and housing thereby increasing the development impact of remittances or if they tend to spend more conspicuously on vices and consumer items and hence not being able to maximize the gains from remittances. This is becoming an important question amidst many issues of labor migration as the country continues to send hundreds of thousands of its labor abroad. The model estimation is done using the Almost Ideal Demand System (AIDS). The dataset has been adjusted to reflect more accurate data of remittances from abroad by excluding the investment dividends and pension components in the FIES remittance data as recommended in previous studies. Likewise, the paper attempts to address the endogeneity issue in studying remittance effects and the presence of zero values in expenditure data. Results show that remittances tend to influence Filipino families to allocate more on education, housing and utilities and less on vices and food.

Keywords: Family Expenditures, Overseas Remittances, Almost Ideal Demand System (AIDS)

JEL Categories: D12, O15

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**PIRIYA PHOLPHIRUL**

National Institute of Development Administration

**PUNGPOD RUKUMNUAYKIT**

National Institute of Development Administration

*Economic Contribution of Migrant Workers to Thailand #205*

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## **Session 2f: Income Inequality**

**TONY IRAWAN**

Bogor Agricultural University

**DJONI HARTONO**

University of Indonesia

*Decentralization Policy and Equity: A Theil analysis of Indonesian Income Inequality #153*

The decentralization policy has been implemented for almost 8 years in Indonesia. One of the main purposes of decentralization policy was to increase economic growth followed by equality. In this paper, we construct gini coefficient and Theil indices of sector income distribution to evaluate the trend of Indonesian income inequality during the implementation of the policy. We will analyze the equality between sector and within sector (e.g. agriculture, industry and services) both in the country and province level data. The output of this study is expected could answer the question whether there is a growth with equality during the implementation of decentralization both between and within sector.

Keywords: Decentralization, Inequality, Theil indices.

JEL Categories:

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**RAHMAH ISMAIL**

University Kebangsaan Malaysia

**ISHAK YUSSOF**

University Kebangsaan Malaysia

*Human Capital and Income Distribution in Malaysia #115*

The Malaysian economy has been expanding very rapidly since the last two decades. Malaysia has achieved a remarkably high economic growth as a result

of strong government policy and political stability. The Malaysian government has put great emphasis on its human capital development. The national vision to achieve the status of newly industrialized nation by year 2020 seemed to be realized. However, achieving high economic growth alone cannot guarantee a decent life of the society if income is not equally distributed. Based on the historical data, the trend of income inequality in Malaysia has been unstable since independent even though human capital development has been expanding over time. This paper aims to identify the role of human capital in explaining income distribution in Malaysia. The analysis is based on 4,003 household data collected through a survey conducted in 2007-2008 throughout the Peninsular Malaysia. The study will construct Gini coefficient by various segments like ethnics, regions and strata to look at patterns of income distribution. In addition, other measurements of income distribution such as income ratio and percentage income will also be used in the analysis. A regression model will be specified to estimate the role of human capital on income distribution. In the model, household income ratio will be used as dependent variable whilst household characteristics, location and regions will act as independent variables.

Keywords: Human Capital, Income Distribution, Gini Coefficient

JEL Categories: O15, I29

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**SOTHEA OUM**

Monash University

*Meeting Millennium Poverty Reduction Target - A CGE Assessment for Cambodia #204*

The main objective of the paper is to apply a computable general equilibrium model to assess the likelihood of Cambodia meeting her millennium poverty reduction target by 2015 for two different growth scenarios. Results from a high growth scenario imply that Cambodia could potentially reduce its poverty headcount from 35% in 2004 to 19% in 2015, 5 percentage points above the target of 24%. This optimistic result is entirely based on the assumption that the pattern of income distribution throughout the forecast period is the same as in the base period. However, Cambodia would miss the target by 3 percentage points, should the economy grow at lower rates during the forecast period.

Keywords: Poverty, Millennium Development Goal, Computable General Equilibrium Model

JEL Categories: C68, I32, O15

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**RAGAYAH HAJI MAT ZIN**

Universiti Kebangsaan Malaysia

*Income Distribution in Malaysia: Old Issues, New Approaches #042*

Almost all the past analyses of income distribution in Malaysia have employed the total income inequality approach, relying on inequality indicators provided by the Government. However, recent relative accessibility to the Household Income Surveys enabled the researcher to decompose income inequality into "between group" and "within group" inequalities by using the Generalized Entropy and Atkinson indices. Based on these exercises, the objectives of this paper are: (i) to profile and update the income distribution trends in Malaysia up to 2007; (ii) to share the results of the decompositions by region, strata, ethnic and socio-economic attributes; (iii) to explore the causes of the recent movements in income distribution; and (iv) to suggest certain changes in some of the policies currently pursued in order to narrow the inequalities.

Keywords: income distribution, inequality decomposition, poverty, Gini ratio, New Economic Policy

JEL Categories: D39

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**Session 2g:  
Energy and Infrastructure**

XUNPENG SHI  
Australian University

***Can coal be reconciled with the environment?*** #128

Coal development and use have led and is leading to serious pollutions. With increasing demand for good environmental quality, coal is expected to be unpromising, which seems to be supported by the recession of coal industry in Western Europe. This paper argues a positive future for coal by hypothesizing a declining emission intensity of coal. It finds that the Western European case has been misunderstood and the USA case actually support a developing coal industry. With China's empirical data, it demonstrates a general co-development and supports the hypothesis of declining emission intensity of coal. The seemingly unrelated regression of fixed effects model finds significant declining trend of emission intensity and also test the impacts of various policy variables on emission. The main contribution of this paper is its demonstration of declining emission intensity and thus provides additional way to reconcile the development of the coal industry and the environment.

Keywords: environmental regulations; coal industry; Western Europe; US; China  
JEL classification: C33; Q38; Q53; Q56

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NAGENDRA SHRESTHA  
Japan Bank for International Cooperation

***Why Estimate the International Input-Output Table? Lesson from the Machinery and Energy Trade Data*** #054

This paper attempts to review what we can disclose from the international trade data analysis and also aims to answer the question "Why estimate the international input-output (IIO) table?" The paper concludes that an analysis based on the trade data does not take account of the indirect effects generated from complex economic interactions and the domestic economic activities; however, significant degree of precision is achieved in estimating extent of the direct linkage. It is suggested that if five to six years time lag and unavailability of the recent and yearly IIO data problems are solved, then the IIO framework may be used to investigate recent economic issues such as recent American financial crisis. The Author assumes that acquisition of the energy resources is a key for the further economic development and the regional integration in Asia.

Keywords: International trade, commodity trade, economic interdependence, international input-output table estimation  
JEL Classification: D57, F10

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BUDY P. RESOSUDARMO  
Australian University  
FRANK JOTZO  
Australian National University  
ARIEF A. YUSUF  
Padjadjaran University  
DITYA A. NURDIANTO  
Australian National University

***Decomposing CO2 Emission from Fossil Fuel Combustions in***

***Indonesia to Understand the Options for Mitigation*** #043

Indonesia is one of the highest CO2 emitter countries in the world. Since 2004, Indonesia is among the top 25 CO2 emitters. If CO2 emission due to deforestation and land use change are included, Indonesia then becomes among the top 3-5 emitters. Although, in terms of CO2 emission per capita from fossil fuel combustions, Indonesia's emission per capita is still low in comparison with other countries, it is growing relatively fast. From 1994 till 2004, Indonesia's CO2 emission per capita from fossil fuel combustions grew faster than major polluter countries', including China's and India's. Within Indonesia, in about 30-40 more years, CO2 emission from fossil fuel combustions will most likely be much more important than that caused by deforestation and land use change. Hence, it is important for Indonesia to start developing strategies to mitigate its CO2 emission from fossil fuel combustion.

This paper decomposes CO2 emission from fossil fuel combustions to understand the main driver of the increase in the amount of emission and the challenges in reducing the level of emission. Subsequently, appropriate policies enabling Indonesian economy to keep on growing but with a much lower CO2 emission can be developed.

Keywords: Climate change, energy policy, energy economics, environmental economics

JEL Categories: Q42, Q48, Q54, Q56

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KITJA TOPAIBOUL  
Payap University  
SUPACHOK KOYDULYA  
Payap University

***Economic Analysis of Jatropha as an Energy Source of Bio-Diesel in Community and Commercial Basis in Thailand*** #026

The aim of this study was to produce an environmental friendly alternative fuel i.e. bio-diesel by Jatropha oil which has no economically significant use and can be come an ideal energy source for the community and commercial of bio-diesel in Thailand. The study analysed the investment worthiness of 4 different cultivations of plant; marginal land, sufficiency, semi-commercial and commercial cultivation.

The study analysed a total of more than thousand different Jatropha investment scenarios, in order to forecast how scenarios for projected growth in bio-diesel production between 2005 and 2029. In the year 2017 in Thailand, the project will need 130,968,343.77 rai of normal Jatropha plantation with irrigation. The marginal land cultivation model came out with very low yield of Jatropha while the commercial cultivation model resulted with too high cost of production. The results of the study found that the sufficiency cultivation (watering can irrigation) model showed strong economic and financial potential.

Key words: B/C (benefit cost ratio), commercial cultivation, IRR (internal rate of return), marginal land cultivation, N/K (net benefit investment ratio), NPV (net present value), PP (payback period), semi-commercial cultivation, sufficiency cultivation.

JEL Categories: JELCategory1, JELCategory2, JELCategory3, etc., as appropriate

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**Session 3a:  
Macroeconomic Policy**

KIYOTAKA SATO  
Yokohama National University  
ZHAOYONG ZHANG  
Edith Cowan University  
MICHAEL MCALEER  
University of Western Australia

***The Effect of External Shocks on Macroeconomic Fluctuations:  
Implications for a Monetary Union in East Asia #113***

This paper attempts to assess how the similarity in macroeconomic fluctuations among the East Asian economies has been affected by external shocks. We employ a structural vector autoregression (VAR) model with block exogeneity to examine to what extent the US shocks have significant impacts on macroeconomic fluctuations in the region. We also conduct a comparative study by including the Japanese or Chinese real output in the VAR model to investigate whether regional (Japanese or Chinese) shocks have more influences on the respective economies than the US shocks. The results of the variance decomposition test and the impulse response function analysis reveal that the US shocks are more important source of real output fluctuations in the region than the local shocks. Even with an accelerating regional economic integration and an increase in correlations of real output growth and domestic inflation, the East Asian countries still show a high dependence on the US economy, which has important implications for the feasibility of regional monetary arrangements in East Asia.

Keywords: Structural vector autoregression; Monetary union; External shocks; East Asia

JEL classification: F33; F36; F41

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ABDUL HAMID JAAFAR  
Universiti Sains Malaysia  
ABUL QUASEM AL-AMIN  
Universiti Sains Malaysia

***Impacts of External Price Shocks on the Malaysian Economy #063***

Malaysia is a relatively open economy with export base chiefly in palm oil, petroleum, natural gas, tropical hardwood products and manufactured items, especially electronics and semiconductors. In terms of food security, Malaysia is a net importer of food. Malaysia's food import bill from January to November 2007 was RM21.3bil (USD70.3 billion) compared to an export figure of just RM12.5billion (USD41.3). Current global food price crisis and high oil price exert economywide impacts on output, trade, welfare, and resource allocation. In this paper, a static computable general equilibrium model is used to simulate the impact of three scenarios. First is food import price increase, second is oil price increase, and finally a scenario that combines food import price increase and oil price increase. Our results do not depict favorable outcome. In particular, in spite of the fact that Malaysia is a net oil exporter, real gross domestic products declined in all scenarios.

Keywords: Computable general equilibrium, external shocks, economywide impact.

JEL Categories: D58, E20, O50.

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CRAIG R. PARSONS  
Yokohama National University  
***The Disappearance of Exchange Pass-Through in Japanese Auto  
Exports: A Very Detailed Look (1980-2006) #021***

This paper estimates the exchange rate pass-through (ERPT) for Japanese automobiles exported to the US market over the 1980-2006 period. The price data used is the annual, model-specific, manufacturer's suggested retail price (MSRP). These prices are regressed in a panel data of 124 models on the yen-dollar exchange rate, cost proxies and the price of competing US automobiles, to measure ERPT over time. I find that pass-through has fallen, and may have even disappeared in recent years, as compared to the late 1980s and 1990s. Several explanations are offered for this decline in pass-through.

Keywords: Exchange-Rate Pass-through, Pricing-to-Market, Japanese autos

JEL Categories: F31, F12, F32, F14

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JOSEF T. YAP  
Philippine Institute for Development Studies  
***Evaluating Sterilized Intervention under an Inflation Targeting  
Framework: the case of the Philippines #066***

After the 1997 financial crisis, several East Asian economies, including the Philippines, adopted an inflation-targeting framework. The shift in the Bangko ng Sentral ng Pilipinas' (BSP) policy framework came with the acknowledgement that a flexible exchange rate framework is better suited to cushioning domestic economic performance from external disturbances than fixed nominal exchange rates. However, many inflation-targeting central banks including the BSP have continued to intervene in the foreign exchange market. This paper evaluates the impact of sterilized intervention using a economy-wide macroeconomic model instead of a model containing only several equations. A loss function is used to evaluate the effectiveness of sterilized intervention, which is equivalent to incorporating the exchange rate in the monetary authority's reaction function. The key features of the New Keynesian macroeconomic model are: i) the policy interest rate of the BSP responds to inflationary, output gap, and exchange rate pressures; ii) changes in the BSP policy rate affect changes in the nominal exchange rate based on the UIP condition; and iii) the nominal peso-dollar rate is an effective transmission mechanism, as both direct and indirect pass-through effects to inflation are relatively above average. The general conclusion is that it would be advisable for the BSP to refrain from incorporating the exchange rate in its reaction function.

Key Words: foreign exchange intervention, monetary policy rule, Central Bank objective function

JEL Classification Numbers: C32, E52

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***Session 3b:  
Foreign Direct Investment***

SADAYUKI TAKII  
International Centre for the Study of East Asian Development  
***Who Gained Market Share in Indonesian Manufacturing? #165***

In 1986-1996, many important taxes and regulations on trade and investment were reduced or eliminated for manufacturing plants in Indonesia. In general, these measures are thought to have contributed to increased competition, which led to remarkable growth before the 1997-1998 economic crisis. After the crisis competitive pressures appear to have increased as deregulation and trade liberalization continued despite a severe economic contraction. However, no known studies how the level of competition has actually changed in the post-crisis period and the purpose of this paper is thus to examine how producer concentration

has changed at the industry level during 2000-2005, after Indonesia recovered from the crisis. The analysis also pays particular attend to examining the relationship between international linkages and concentration. The GMM estimation results of dynamic panel data model suggest that the increase in export are negatively correlated with the level of concentration after controlling for other factors that affect concentration.

Keywords: market structure, producer concentration, multinational corporation, foreign ownership, Indonesia, manufacturing  
JEL Categories: F23, K22, L11, L32, L33, O53

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ERIC D. RAMSTETTER

International Centre for the Study of East Asian Development

***Producer Concentration, Conglomerates, Foreign Ownership, and Import Protection: Thai Manufacturing Firms a Decade after the Crisis #100***

Producer concentration, foreign ownership, and exporting have increased in most Thai manufacturing industries during the decade beginning in 1996, just before the economic crisis of 1997-1998. However, after accounting for standard entry barriers, correlations between producer concentration and foreign ownership were weak. There was a somewhat stronger tendency for concentration to fall in industries with relatively high import protection, but this correlation was also weak by normal statistical standards. In contrast, there was a strong tendency for concentration to rise in industries where shares of intra-industry conglomerates were relatively large in the initial year. Incumbent firms, which were also among the largest firms in their respective industries in both years, had a strong tendency to be conglomerate members in both years, and a weak tendency to be majority-foreign owned in 1996, but not 2006. Exporting firms did not have a strong tendency to be among the largest firms, however. Firms that exited or entered samples of the largest firms between 1996 and 2006 did not have a strong tendency to be conglomerate members, majority-foreign owned, or exporters. Thus, potential market power was most common among incumbent conglomerate members and may have existed in some incumbent majority-foreign firms.

Keywords: market structure, producer concentration, multinational corporation, foreign ownership, protection, Thailand, manufacturing  
JEL Categories: F23, K22, L11, L32, L33, O53

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AYAKO OBASHI

Keio University

***Stability of Production Networks in East Asia: Duration and Survival of Trade #183***

This paper sheds light on the stability of international production networks in East Asia from the perspective of the duration and survival of bilateral trade relationships at the product-line level. Using highly disaggregated data for intra-East Asian machinery trade, survival analysis is conducted as well as the examinations of the duration and volatility of trade relationships. The product-level analyses reveal that machinery parts and components are traded through more stable and longer-lived relationships among East Asian countries, compared to final products. Once transactions are started, trade relationships of machinery parts and components are more likely to be maintained between countries even at a long distance, regardless of the exchange-rate fluctuations. Trade relationships of machinery final products, on the other hand, are more likely to be sensitive to the level of trading cost as well as the exchange-rate fluctuations.

Keywords: Duration of trade; survival analysis; fragmentation; East Asia

JEL Categories: F10; F14

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MASATSUGU TSUJI

University of Hyogo

SHOICHI MIYAHARA

Aoyama Gakuin University

YASUSHI UEKI

Bangkok Research Center

***Consolidated Multi-country Analysis of Industrial Agglomeration, Upgrading and Innovation #189***

This paper focuses on identifying factors that encourage the agglomeration and innovation currently underway in specific ASEAN countries; namely, Indonesia, the Philippines, Thailand, and Vietnam, which participated in international joint research organized by ERIA (Economic Research Institute of ASEAN and East Asia). In order to investigate the different sources and consequences of innovation in industrial clusters, we utilize different methodologies to investigate public datasets, conduct in-depth interviews, and use econometric analysis of original survey data. The mail surveys were conducted in October and December 2007. The numbers of replies from the individual countries were as follows: Indonesia, 121; the Philippines, 505; Thailand, 160; and Vietnam, 102. In this analysis, we combined these individual data together to yield a sample size of 888. Using this data, we analyzed the nature and characteristics of agglomeration and innovation in the four ASEAN countries. This paper identifies the following contributing factors for agglomeration by a rigorous econometric analysis: for first movers, local content requirements, government institutional infrastructure, size of local markets, and proximity to suppliers/subcontractors; and for latecomers, the protection of intellectual property rights and financial systems. Encouraging factors for industrial upgrading and innovation include liberal trade policy, legal systems, and proximity to suppliers/subcontractors.

Keywords: agglomeration, sources of innovation, technology development, Logit model.

JEL Categories: O14, O31, O25, R11, C24

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***Session 3c:  
International Trade***

JAYANT MENON

Asian Development Bank

***Dealing with the Proliferation of Bilateral Trade Agreements #008***

Bilateral Free Trade Agreement (BTAs) have been proliferating. The outcome of this proliferation of often overlapping BTAs and PTAs is described as the spaghetti bowl effect or, in the Asian region, the noodle bowl effect. This is costly, and welfare reducing. How do we remedy the situation? In this paper, we consider the various options proposed in dealing with the spaghetti bowl, and assess their ability to do so. A general limitation of these proposals is their tendency to group all kinds of BTAs together, treating them as a homogeneous group. Thus, the proposals ignore underlying differences in motivation in forming BTAs. To overcome this, we develop a taxonomy for classifying BTAs by motivation before considering the effectiveness of the different remedies proposed. We find that each proposal has its pros and cons, and can cater to different types of BTAs. Thus, a combination of the various proposals may be warranted, even in the event of an expeditious and bona fide conclusion to the Doha Round.

Keywords: bilateral free trade agreements; spaghetti bowl; regionalism; multilateralism; rules of origin; WTO.

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WILLIAM E. JAMES  
Asian Development Bank

***Have Antidumping Measures of Members of the EU and NAFTA  
Against East Asian Countries Provoked Retaliatory Responses? #096***

Antidumping investigations and measures since the founding of the World Trade Organization on January 1, 1995 are examined in order to address the question in the title. Data are compiled on the initiations and measures undertaken by the members of the North American Free Trade Agreement (NAFTA) and the European Union (EU) vis-à-vis Japan and ten other major East Asian Economies and are compared with import shares in order to derive measures of the intensity of use of antidumping (James 2000). The data are organized into three discrete time periods: 1990-1994, 1995-1999, and 2000-2004 using the Global Antidumping Database (Version 3.0). Next the paper examines the initiations and measures undertaken by the East Asian countries themselves and compares these with import shares of NAFTA and EU members to derive similar intensity measures. One expects the intensity measures to increase if the East Asian economies have been retaliating against EU and NAFTA members. In particular, the paper seeks to demonstrate that, in the parlance of game theory, current antidumping arrangements are a negative sum game. Some reform measures that might be applied to limit the damage are proposed.

JEL Classification: F13, F53 and C70

Key Words: Antidumping, Retaliation, Discrimination, Dispute Settlement, Trade

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NOOR AINI KHALIFAH  
Universiti Kebangsaan Malaysia  
RADZIAH ADAM  
Universiti Sains Malaysia

***Comparison of Backward Linkages between Foreign and Local  
Establishments in Malaysian Electrical and Electronics Sector: A  
Panel Analysis #083***

This study examines vertical spillovers from foreign direct investment by comparing backward linkages of both foreign and local establishments with domestic suppliers in the Malaysian electrical and electronics sector. The study uses an establishment-level balanced panel data set for the period of 2000-2004, with the extent of local backward linkages measured as the proportion of inputs sourced locally. After controlling for other establishment-specific factors under the Fixed Effect Tobit estimation, determinants of backward linkages include the sizes of establishment and industry, exchange rates and three foreign ownership dummies respectively. All the categories of foreign shareholdings are shown as having significantly lower backward linkages than locals. However, alternative measures of backward linkages reveal that only wholly foreign-owned establishments are sourcing less input locally. The findings recommend a policy of attracting FDI inflows in terms of foreign ownership with local participation instead of 100 percent foreign-ownership in order to encourage formation of backward linkages.

Keywords: backward linkages, vertical spillovers, foreign ownership, electrical and electronics sector, Malaysia

JEL Categories: F10 (International Trade, General), F23 (Multinational Firms; International Business), D21 (Firm Behavior)

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***Session 3d:  
Financial Market***

STEPHANIE L. CHAN  
Pricewaterhouse Coopers Transactions Group  
ANDREW ADRIAN Y. PUA  
De La Salle University

***Is the Special Purpose Vehicles Act Responsible for  
the Decline in the Non-performing Loan Ratios in the Philippines?  
#168***

Much of the discussion of the decline in nonperforming loan (NPL) ratios for Philippine banks rests on the assumption that the Special Purpose Vehicles (SPV) Act was effective in providing tax incentives for Philippine banks to reduce their nonperforming loan portfolios. Using aggregated quarterly data on commercial, thrift and rural banks from 1999 to 2006, we find that the SPV Act reduced the incidence of NPLs by approximately 0.9 to 2.4 percentage points but the effects are not statistically significant and practically small.

Using the Dickey-Fuller GLS test, we find that the NPL ratio time series for every type of bank are I(1) even after taking into account the presence of the SPV Act. Further, we find evidence that cyclical components of macroeconomic variables, extracted using the Baxter-King and Hodrick-Prescott filter, do not influence changes in NPL ratios but may influence levels of NPL ratios. Bank-specific variables such as loan to asset ratios, return on assets and equity ratios drove the decline in NPL ratios much more than the effects of the SPV Act. Therefore, we conclude that the SPV Act could not have been responsible for the decline in NPL ratios in the Philippines.

Keywords: Nonperforming loans, Special purpose vehicles

JEL Categories: Government Policy and Regulation (G18); Prices, Business Fluctuations and Cycles (E3)

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YUAN YUAN  
University of Tokyo  
HIROSHI GUNJI  
Tokyo International University

***How Does Foreign Entry Affect Domestic Banking Markets? Evidence  
from China #140***

In China, foreign capital share of banks had been restricted to 25 percent by 2006. Does such a relatively low share of foreign capital even have an impact on banking sector? In this paper, we use panel data of 19 major banks during 1996-2004 to shed light on the impact of foreign capital participation on Chinese banking industry. We find that although the operating performance of foreign-owned banks is basically worse than domestic banks, as the market share of foreign-owned banks rises, those are getting better. For domestic banks, the non-interest incomes decreases, while the interest incomes increases. Therefore, net effect of the foreign-owned banks' share on the profitability of domestic banks is little.

Keywords: China, bank, foreign capital, foreign-owned banks

JEL Categories: E44, G21, G32, L22, O16

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FUMIHARU MIENO  
Kobe University

***Foreign Owned Firms, Listing Status and the Financial Systems in***

*East Asia: Evidence from Thailand and Malaysia #059*

Existing studies on the financial system in East Asia have emphasized on the excessive debt finance, a lack of bond market and its limited function on corporate governance, while the apparent facts such as the low debt ratio in average, the existence of large but unlisted firms, and the significance of foreign firms in its economy are usually ignored.

Based on a uniquely compiled database for the top 300/1000 firms in Thailand and Malaysia, we examined the distributional feature of listed status and foreign ownership, then, re-estimated the determinants of the capital structures.

We confirm basic facts that the non-listed firms occupy a large portion in the distribution, and that the debt financing of major firms is relatively inactive. We found the significance of the foreign share and its negative relationship with debt financing and 'going public', we also found that certain kinds of foreign firms tend to keep tick retained earning and non-bank debt, suggesting their deep reliance on self-financing and internal capital market.

The characteristics of the corporate finance in East Asia can be explained, in part by such distributional features of listing status and foreign ownership. Our findings cast a question on the conventional view about the current policy framework emphasizing on the shift from financial intermediation to capital and bond market.

Keywords: Financial System, Corporate Finance, Southeast Asia, FDI  
JEL Categories: G30, G32, O52

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SITI ASTIYAH  
Bank Indonesia

*Financial Deepening and Regional Economic Growth: The Case of Indonesia during post financial crises #134*

Theoretical and empirical studies have suggested that there is a significant relationship between finance and economic growth. Studies support the view of the positive relationship between financial development and economic growth (King and Levine (1993), Beck, Levine, and Loayza (2000)). Following the 1997/98 financial crises, however, the role of financial sector in promoting economic growth has been questioned. It made the role of financial on economic development remains unclear.

Most empirical studies of the relationship between financial development and economic growth are using cross country. There is a lack of empirical study which analyzed the finance-growth nexus at a regional level in a single country. This study fills the gap.

This study will analyze the relationship between financial deepening and economic growth at the regional (provincial) level. By employing provincial data, this study attempts to investigate the relationship between financial deepening and growth pattern of regional economies in Indonesia during post financial crises.

Keywords: Financial sector, economic growth, economic regional, Indonesia  
JEL Classification: E44, E58, R58

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**Session 3e:  
Household Welfare**

LAWRENCE B. DACUYCUY  
De La Salle University

*Sector Choices of Female Workers, Wage Differentials and Inequality: The Philippine Case #142*

This study analyzes the wage determination and selection mechanisms for female workers in the public and private sectors during the aftermath of the Asian financial crisis. Focusing specifically on age effects and using the two-step correction model for double selectivity bias which account for paid/unpaid and private/public selection, we investigate the validity of the link function in selection models, implement the usual Oaxaca decomposition to ascertain the factors that help explain the sectoral wage gap and apply the Fields inequality decomposition framework to determine the factors that affect the intra-sector level of inequality. Based on wage equation estimates, the return to schooling in the public sector is far greater than that of the private sector. Results indicate that there is a wage premium in favor of the public sector. As expected, wages in the private sector display more variability relative to the wages in the public sector. Education and unobserved characteristics play an important role in shaping the resultant intra-sector inequality.

Keywords: Sectoral choices, Wage differentials, Wage inequality  
JEL Categories: J31, D31, J23

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OLEKSANDR MOVSHUK  
University of Toyama

*Household Consumption over the Life Cycle: Evidence from Micro Data #110*

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DENNIS S. MAPA  
University of the Philippines

*Population Dynamics and Household Saving: Evidence from the Philippines #078*

The economic growth implications due to changes in the nation's age structure have been substantial. In the course of the demographic transition, countries experience an increasing share of the working age population relative to the total population and this creates favorable effects on economic growth. The changing age structure also influences household saving rate. This paper looks at the role of the slow demographic transition in the Philippines to its aggregate household saving rate using panel data from the Family Income and Expenditure Survey (1985 to 2003). It is known for a fact that household saving rate in the Philippines is one of the lowest in East Asia. The econometric model is based on the augmented life cycle model and the results suggest that the country's population dynamics plays an important role in its household saving rate. The Philippines rapid population growth creates a big bulge in the lower portion of the age pyramid that resulted in a higher percentage of young dependents. This suggests that the country is paying a high price for its high population growth resulting to low saving rate and consequently, low economic growth. The results also show that remittance from migrant workers is a major source of aggregate household saving.

Keywords: Demographic Transition, Saving Rate  
JEL Categories: E21, J10

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MASAYOSHI MARUYAMA  
Kobe University  
LE VIET TRUNG  
Kobe University

***The Nature of Pavement Economy in Transition Economies: The Case of Vietnam #138***

The informal business activity which named the “Pavement Economy” is expanding rapidly. Surprisingly, however, there has been hardly any research done in Vietnam on this recent phenomenon of the informal markets. It is necessary to raise the questions as to why sellers continue running informal markets, and why consumers still patronize these markets. Based on the empirical study of the consumer choice between informal and formal markets, this paper shows that shoppers with higher income or higher concern for freshness and safety of fresh food would likely shop at formal markets. Lower price and lower income are found significant for the choice of informal markets. Therefore, these two kinds of markets should be viewed as two market segments rather than taking market share away from each other. This coupled with the findings in our informal vendor survey provides a basis for understanding the nature of informal markets in Vietnam.

Keywords: Informal market, Consumer behavior, Probit model, Vietnam  
JEL Classification Number: D12, L81, M31, M38, O17

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***Session 3f:  
Income Inequality***

JIAN-HONG YANG  
Jiangsu Administration Institute  
JIN FAN

Jiangsu Administration Institute  
HIROSHI SAKMOTO

The International Centre for the Study of East Asian Development  
***Dynamic Evolution and the Industrial Reasons for “The Poor Getting Poorer, and The Rich Richer” in China: 1978-2006 #035***

The problem of convergence in China has generated a huge empirical literature. An important issue in the study of convergence is whether the poorer economies could catch up with the richer ones. The traditional method is to use the  $\sigma$ -convergence and  $\beta$ -convergence, and currently more and more researchers focus on the way of non-parameter estimation. This paper tries to adopt the non-parameter method of kernel density function to study convergence in Chinese provincial level, and then search for the industrial reasons. We find that: Firstly, there is no convergence trend in China, and the poor provinces have been getting poorer and the rich richer, with the middle class vanishing. Secondly, the phenomenon of the polarization is mainly due to the disparities in the secondary industry, and the disparities in the tertiary industry among all provinces also play an important role in the disparities of per capita income in China, and while the primary industry is convergence in China. Finally, after China has formally entered the WTO since 2002, the disparity in the secondary industry has been getting weaker, but the disparity in the tertiary industry has been getting enlarger and substituting this weakness.

Keywords: polarization; the kernel density function; convergence.  
JEL: C16, O18, R11

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JIN FAN  
Jiangsu Administration Institute

YANG JIAN-HONG  
Jiangsu Administration Institute  
SAKMOTO HIROSHI

The International Centre for the Study of East Asian Development  
***An Analysis on Subregional Convergence by Using Distribution Dynamic Method in A Province of China: Jiangsu's Study #033***

Economic growth across regions in a province of China has recently been the subject of intensive empirical study. There are dozens of studies about convergence, and however, most of them use the method of  $\sigma$ -convergence and  $\beta$ -convergence. Both  $\sigma$ -convergence and  $\beta$ -convergence could only provide some summary information about the distribution which is the most important thing of convergence. Hence, our paper tries to adopt the weighted distribution dynamic method to study convergence trend in China by taking Jiangsu province as an example. We've drawn the following conclusions as follows: Firstly, there exists a phenomenon of polarization, which shows that the poor getting poorer, and the rich richer, with the middle class vanishing. Secondly, disparity of per capita income had been enlarged during 1990-1995, and 2000-2005 and 1990-2005, and decreased during 1995-2000, it displays a trend of phases. Finally, most of the regions are poor, and they are trap in poverty, on the contrary, only a few are rich.

Keywords: Regional disparity, Gaussian kernel function, Markov transition matrix  
JEL: C16, O18, R11

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DANIEL SURYADARMA  
Australian National University  
***Corruption, Public Spending, and Education Outcomes: Evidence from Indonesia #002***

This paper takes advantage of a new corruption measure across regions within a country to measure the influence of corruption on public spending efficacy in the education sector in Indonesia, one of the most corrupt countries in the world. I find that public spending has a negligible effect on education outcomes in highly corrupt regions, while it has a statistically significant, positive, and relatively large effect in less corrupt regions. I do not find any direct effect of corruption on education outcomes, but instead a channel through which corruption adversely affects the education system is through reducing the effectiveness of public spending. Hence, pouring more public funds into the education system would not bring about improvement in education outcomes if not accompanied by efforts to improve governance in the sector.

Keywords: corruption, public spending, education, Indonesia.  
JEL classification: D73, H75, I21, O1.

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***Session 3g:  
Energy, Environment, Underground  
Economy***

ABUL QUASEM AL-AMIN  
Universiti Kebangsaan Malaysia  
CHAMHURI SIWAR  
Universiti Kebangsaan Malaysia

***Macroeconomic Effects of Carbon Dioxide Emission Reduction: A Computable General Equilibrium Analysis for Malaysia #023***



This study analyzes the macroeconomic effects of limiting carbon emissions using computable general equilibrium (CGE) model in the Malaysian economy. Doing so, we developed an environmental computable general equilibrium model and investigate carbon tax policy responses in the economy applying exogenously different degrees of carbon tax into the model. Three simulations were carried out using a Malaysian Social Accounting Matrix. The carbon tax policy illustrates that a 1.21% reduction of carbon emission reduces the nominal GDP by 0.82% and exports by 2.08%; a 2.34% reduction of carbon emission reduces the nominal GDP by 1.90% and exports by 3.97% and a 3.40% reduction of carbon emission reduces the nominal GDP by 3.17% and exports by 5.71%. Imposition of successively higher carbon tax results in increased government revenue from baseline by 26.67%, 53.07% and 79.28% respectively. However, fixed capital investment increased in scenario 1a (1st) by 0.43% but decreased in scenarios 1b (2nd) and 1c (3rd) by 0.26% and 1.79% respectively from the baseline. According to our findings policy-makers should consider initial (1st) carbon tax policy. This policy results in achieving reasonably good environmental impacts without losing the investment, fixed capital investment, investment share of nominal GDP and government revenue.

Keywords: Emission, Environmental General Equilibrium, Malaysian Economy  
JEL Classifications: Q5, B22, C68

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MANABU FUJIMURA

Aoyama Gakuin University

***Externalities for Cross-Border Infrastructure Projects: Evaluation Challenges #071***

Regional development institutions including the Asian Development Bank (ADB) extend funds to support infrastructure projects that have characteristics of regional public goods. While externalities associated with cross-border infrastructure projects are the core rationale for public intervention and cooperation at the regional level, evaluation practice both ex ante and ex post suffers from analytical difficulties as well as inadequate data because of the elusive nature of infrastructure projects whose benefits and costs go beyond national boundaries. This paper attempts to fill this gap faced by policy makers and practitioners. It first defines what constitutes cross-border infrastructure projects and outlines desired analytical framework and evaluation criteria, with a particular focus on cross-border externalities, including both positive impacts (additional financial resources, collective actions, market access, efficiency and welfare gains) and unintended losses/negative impacts. Then it applies them to selected cross-border infrastructure projects in the recent past that have received ADB assistance. The paper then identifies analytical and empirical gaps in practice and concludes with recommendations to improve evaluation and help maximize development effectiveness.

Key words: evaluation, cross-border infrastructure projects, externalities  
JEL Categories: H41, O22

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ROBERTO GALANG

Asian Institute of Management

IESE Business School

***State Institutions and Market Development: Why Markets Exist in Certain Countries but not in Others #036***

This paper extends arguments on why markets develop in certain countries but not in others by analyzing how state regulation moderates the impact of transaction costs on market development. I argue that by defining property rights, enforcing contracts and reducing uncertainty, efficient state institutions facilitate market development

by changing the relative governance costs of markets versus hierarchies, leading to an increased likelihood wherein parties undertake transactions in the market. This state-market relationship is stronger for goods whose exchange is characterized by more substantial asset specificity and uncertainty.

Using a seven-year, 40-country dataset on three types of financial cards with differing levels of transaction costs, I find empirical evidence suggesting that improved regulatory efficiency increases per capita circulation of credit cards, and to a lesser extent, debit cards and automatic teller machine cards. Results also indicate a significantly higher level of financial card market development relative to other countries among Northeast Asian nations but not among Southeast Asian countries.

Keywords: Regulation, Transaction Costs, Institutions, Financial Cards, Development

JEL Classification: D23, D73, O12, O17

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LUCINDA DAVID

Lund University

***An Institutional Analysis of Political Capital and Market Transition***

#024

In his 1989 seminal paper and subsequent publications, Victor Nee developed the market transition theory (MTT), which argues that reforming socialist economies shift power from a redistributive government to direct producers. One of the most contentious predictions of the theory is that market expansion will induce a relative decline in the value of political capital. However, China's transition to a socialist-market economy has progressed at different levels, varying across industries and sectors, due to partial reform measures. This paper argues that deficiencies in its institutional environment such as a weak legal system, format credit inaccessibility and bureaucratic inefficiencies, have led particular industries to continue to put a premium on political capital despite market coordination. This paper analyzes the partial reform environment in China and the market structure of its key industries, as shaped by the events of its transition and liberalization. Using the World Bank Investment Climate Survey for China in 2003 dataset, regressions are performed to test the MTT and evaluate the valuation of political capital in 13 different industries matched with key institutional indices.

Keywords: Market Transition, Political Capital, China, Industries, Institutions  
JEL Categories: JEL Category L, JEL Category F16 O17, JEL Category P48

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***Plenary Session 2:  
The Philippine Economy Amidst the Current  
Global Crisis***

***Special ERIA Session 1:  
Deepening Economic Integration and  
Energy Security***

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***Session 4a:  
Macroeconomic Policy***

HSIUFEN HSU

Osaka University  
***Is a Common Currency Area Feasible for East Asia? A Multivariate  
VAR Approach #160***

This paper investigates the presence of stochastic and dynamic convergence of the 14 regional economies in the Philippines in terms of per capita Gross Regional Domestic Product (GRDP) using regional panel data from 1988 to 2007. Stochastic convergence, which indicates convergence of regions in the long-run, is tested using Levin, Lin & Chu (LLC) and Im, Pesaran & Shin (IPS) panel unit root tests. The presence of convergence, on one hand, indicates that the economically laggard regions are gaining on the economically better-performing regions with respect to per capita GRDP. On the other hand, the lack of convergence indicates a need to reevaluate existing regional and national economic policies on development. Dynamic convergence reveals several convergence characteristics of individual regions over time. Dynamic convergence is determined by the time-varying parameter (TVP) model derived using the Kalman Filter. The paper proceeds to examine the individual convergence behavior of each region based on the value of the estimate of the parameter of the TVP. The results show that out of the 14 regions studied, seven regions are found to converge towards the average of the national per capita GDP growth rate over 1988 to 2007 while six regions lag behind the average of the national per capita GDP growth rate over the same period. No region converges towards the economic growth rate of National Capital Region, the lead region used in the study.

Key words: Panel Unit Root Test, Time-varying Parameter (TVP) Model, Kalman Filter, Stochastic Convergence, Dynamic Convergence  
JEL Categories: R11, R12, O47

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ANDREW SHENG  
University of Malaya  
KIAN-TENG KWEK  
University of Malaya

***The Rise of an Asian Currency Bloc: Patterns of Currency Behaviour  
#064***

This paper examines the pattern of the nine Asian currencies exchange rate stability against each other. The base flight formation is like the Akamatsu Japanese flying geese model, in which currencies follow a lead goose in flight pattern. Applying a ‘centripetal-force model’, we compute the centripetal force (the external force required to make a body follow a trajectory path towards central parity) for these currencies. A low centripetal force would suggest that there exists currency convergence, that is, a tendency towards parity with each other. Second, if there exists a market driven centripetal force towards currency convergence, then the Asian currency pattern appears to be an Asian bloc, currently without formal institutional arrangements. This suggests that currency arrangements in East Asia are an informal, flexible and as yet undetermined parity with each other, basically awaiting formality of exchange rate arrangements that has to have agreement between Asian central banks. In other words, the market is already adopting a ‘self-organized’ flexible parity, without the need for a formal institutional arrangement. Using a Nash and a cooperative equilibrium analysis, we simulate a three-currency game amongst Asian-US-EU blocs. Formal institutionalization of the Asian currency bloc requires operational definition of such a basket, whereas market forces are currently a self-organized, incentive compatible search for a common basket without precise definition.

Keywords: Centripetal Force Model, Flying Geese Pattern, Self-organized Currency Convergence  
JEL Categories: F3, F4, C7

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ESTA LESTARI  
Indonesian Institute of Sciences  
SIWAGE DHARMA NEGARA  
Indonesian Institute of Sciences

***The Spillover Effects of the Subprime Mortgage Crisis to the Asian  
Stock Markets #061***

The U.S. subprime mortgage crisis has created widespread financial market turmoil around the world. To some extent, the subprime crisis can be seen as a repetition of the late 1990s Asian crisis, which saw the property bubble bursting and setting off a full blown financial crisis in the region. This time, however, the bubble burst was outside the Asian region. The subprime crisis affected the Asian stock market directly and indirectly. It directly affected the Asian listed companies and banks, which have ventured in the subprime-related investments. Indirectly, the effect came from the shock and increased volatility in the U.S. stock market.

This paper aims to analyze both the direct and indirect effects of the subprime mortgage crisis on several Asian stock markets, i.e. China, Hongkong, Indonesia, Malaysia, Singapore, and South Korea. An Exponential Generalized Autoregressive Conditional Heteroscedasticity (EGARCH) model is employed to provide an empirical evidence of the direct spillover effect of the increased volatility in the (ten) most affected U.S. investment banks into the Asian stock markets. Moreover, the indirect effect is measured through the spillover effects from the increased volatility in the U.S. stock markets to the Asian stock markets.

Keywords: Stock market, subprime mortgage crisis, volatility, spillover effect  
JEL classification: C22, F36, G15

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JUN-ICHI SHINKAI  
Osaka University  
AKIRA KOHSAKA  
Osaka University

***Global Shocks and the Japanese Economy: Structural Changes in the  
1990s #192***

This paper analyzes how those global shocks as foreign business cycles and exchange rate realignments affect the Japanese economy and whether there are structural changes in the transmission mechanism of these shocks in the recent period by using a structural VAR model. Although global recession and yen appreciation are both regarded likely to negatively affect the Japanese economy, it has been often argued that both the spillover effect of the US business cycles and the expenditure-switching effect of exchange rate changes have been weakened. If this is the case, it implies that the Japanese economy has become less sensitive to these external shocks. As a matter of fact this paper finds that there are structural changes in the transmission mechanism of global shocks to the Japanese economy, perhaps because of deeper economic integration. It shows that, since the 1990s the impact of exchange rate changes on the Japanese economy has become smaller and/or insignificant. But the spillover effect of business cycles in U.S. and Europe turns out to have become larger and that from East Asia, once being small and insignificant, become large and significant in the 2000s. To sum up, the Japanese economy has appeared to re-couple with the world and regional business cycles in the recent period.

Keywords: global shocks, de-coupling, expenditure switching  
JEL Classification: F3, E32, C5

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## **Session 4b: Foreign Direct Investment**

**ELIAS HOSSAIN**  
University of Rajshahi

***Impact of Foreign Capital Inflows on Domestic Investment: Evidence  
from Malaysian Panel Data #185***

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**ROBERT E. LIPSEY**  
NBER and City University of New York  
**FREDRIK SJÖHOLM**  
Research Institute of Industrial Economics, Stockholm,  
Örebro University

***Foreign Takeovers and Employment in Indonesian Manufacturing  
#010***

The lack of modern sector employment is a major problem in most developing countries. Foreign firms are typically relatively large with high productivity and good access to foreign markets, and might therefore be better at creating jobs than domestic firms are. However, there is not much previous research on the issue. We examine employment growth in Indonesia in a large panel of plants between 1975 and 1999. Our results suggest that employment growth is relatively high in foreign firms. Foreign firms acquire relatively large domestic plants, which in general grow more slowly, on average, than smaller plants, but growth in employment is still faster than in the average domestic establishment after the acquisition. Domestic acquisitions of foreign owned plants result in a lower rate of employment growth. Finally, it is primarily employment of blue-collar workers that increase after a foreign acquisition.

Keywords: Foreign Direct Investment, Employment, Indonesia, Acquisitions  
JEL codes: J21, J23, F23

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**XINZHONG LEE**  
Chinese Academy of Social Sciences

***Spatial Agglomeration of Foreign Direct Investment and  
Technological Renovation: Empirical Evidence from China #112***

This paper investigates prospects and possibility of integration of Korea-China-Japan trilateral economic communities based on the analysis of intra-trade and FDI inflows and econometrical methods. The derived results indicate that there exists significantly economic complement between China and Korea-Japan, such as labor resources, industrial structure, merchandise structure of exports. In particular, strong growth of intra-trade and FDI inflows has presented the increasing trend with both Korea-China and China-Japan having rather high trade intensity index and dependency index, and China has become the largest market of exports and destination of FDI outflows for Korea and Japan. Thus, these evidences demonstrate that there are strong basics and enormous potential of cooperation between Korea and China and between China and Japan, rather than the competition. Thus, based on China's trade and FDI liberalization after China's accession to WTO, once FTA and integration of Korea-China-Japan trilateral economic communities are successfully realized, Korea's enterprises and Japan's enterprises will obtain significantly enormous benefits, and this also significantly accelerates process of integration of the economies in all the Eastern Asia.

Key Words: FTA, Korea-China, China-Japan, Integration, Prospect.

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## **Session 4c: International Trade**

**HAITAO WU**  
Zhongnan University of Economics and Law  
**SUSHIL PANDEY**  
International Rice Research Institute  
**DAYUN TAO**  
Yunnan Academy of Agriculture Science

***Assessment the Impact of Agricultural Technology Adoption on  
Farmers' Well-being Using Propensity-Score Matching Analysis for  
Rural China #092***

This paper aims at assessing impact of improved upland rice technology on farmers' well-being in southern Yunnan, China. As technology adoption is not randomly assigned but the result of farmers' "self-selection", the paper tackles a methodological issue in assessing the causal effect through propensity-score matching analysis. Employing different matching algorithms and using 473 household survey data in 2000, 2002 and 2004, the study pursues a targeted evaluation that how adoption of improved upland rice technology lets farmers to improve their income. It finds that, estimated by whatever matching algorithm, improved upland rice technology has a robust and positive effect on farmers' well-being, suggesting that agricultural technology has directly contribution to income increase and poverty alleviation. The effect of technology on well-beings, however, shows a diminishing impact, meaning that as a technology addresses to poverty issue, its effect on well-being will be gradually lower.

Key words: Technology adoption; Poverty alleviation; Propensity score matching  
JEL Categories: O33; P36

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**JONG-WHA LEE**  
Asian Development Bank  
**JU HYUN PYUN**  
University of California, Davis

***Does Trade Integration Contribute to Peace? #210***

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**LEOW GHIN YIN**  
Universiti Sains Malaysia  
**SOO Y. CHUA**  
Universiti Sains Malaysia

***An Analysis of Malaysia's Manufactured Exports Competitiveness  
Between 1980 and 2006 #065***

This paper examines the possible factors influencing Malaysia's manufactured exports competitiveness. We employ a medium size macroeconomic model to shed some light on Malaysia's trade competitiveness in the East Asian region. The two-stage least square (2SLS) method is used for estimation. The findings indicate that inherent openness of Malaysia's economy, exchange rate and the region inflation rates have favorable impact on her manufactured exports competitive position. The dependence of her manufactured exports on foreign direct investment is found to be mild. Interest rate policy has limited effect on the economy as a whole. In the simulation part, we found that Malaysia's move to peg the exchange rate should only be applied for short-term. When the currency peg over-stays, it disrupts the price system and resource allocation which is unfavorable to the nation's trade

competitiveness.

Keywords: Competitiveness, Malaysia's exports, macroeconomic model  
JEL Categories: F17, F41

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JUTHATHIP JONGWANICH

Asian Development Bank

***Processed Food Exports from Developing Countries: Patterns and Determinants #060***

Over the past three decades, there has been a rapid expansion of processed food exports, replacing the traditional food exports such as coffee and tea. However, this development and its policy implications have received little attention in the literature on export-led industrialization in developing countries. The determinants of inter-country differences in export performance of processed food in terms of both export volume and its share in total agriculture exports are examined. The results point out that trade policy regime, size of domestic markets, and agricultural resource endowments are the key factors in explaining inter-country differences in export volume of processed food while the two former factors are also crucial in explaining the structural changes of agriculture exports towards processed food. Well macroeconomic management would help to facilitate the expansion of processed food exports while improvement in physical infrastructure, particularly transportation system, would help to stimulate agriculture exports towards processed food products. Compared to other regions, trade liberalization, relatively large domestic market and cost competitiveness help support processed food exports in Asian economies. By contrast, relatively less development in agriculture sector, inadequate financial supports, inability to overcome Sanitary and Phytosanitary Standards (SPSS) and lack of infrastructure development tend to constrain an expansion of processed food exports in Asia.

Keywords: Processed food, trade, developing countries  
JEL Categories: L66, F1, O5

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***Session 4d:  
Financial Market***

TAKUMA MATSUDA

Kanto Gakuin University

YUAN YUAN

University of Tokyo

***Productivity and Banking Reforms in China #052***

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RATNA SRI WIDYASTUTI

University of Indonesia

LUHUR FAJAR MARTHA

University of Indonesia

***Testing Competition among Indonesian Banks #058***

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HIDENOBU OKUDA

Hitotsubashi University

***Could the Reform Policies Change the Corporate Financing in Indonesia? : Estimating the Differential Effects of Business Groups,***

***Social Factors, and Ownership #067***

This paper investigates how the factors determining debt-ratios of Indonesian listed companies after the reform policies following the Asian crisis. The estimation results based on the panel data during the period 1994-2006 show that substantive change in the financing activities of listed companies after the Asian crisis. While the capital structure of Indonesian companies were influenced by excessive borrowings leveraging business group and specific social and political elements before the Asian crisis, these influences were no longer found in the results after the crisis. This is considered to be a consequence of financial and corporate reforms following the Asian crisis.

However, the estimate results also illustrate the fact that policy tasks still remain. First of all, the insufficient collateral capacity may become a serious impediment to financial activities. Secondly, banks are hesitant to extend loans to corporate sector, which indicates they do not bear adequate risks that meet the profitability of borrowers. Thirdly, it is only the companies with sufficient collaterals that can borrow the long-term investment funds. In order to tap the long-term funds, the core companies in business groups function as a conduit for such borrowing.

Keywords: Corporate Finance, Capital Structure, Ownership Structure, Indonesia  
JEL Categories: G32, G34, G38

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PRINCE CHRISTIAN R. CRUZ

Global Property Guide

***Factors Affecting Asian Housing Markets #137***

The performance of Asian housing markets widely differs. For instance, the recovery of housing markets has been highly uneven a decade after the 1997 Asian Financial Crisis. Several countries have experienced rapid house price increases and massive construction booms while some countries languished.

The paper looks at the different factors that affect housing markets in Asia. Using residential property price indices for several Asian economies, the effects of factors such as economic performance, interest rates, inflation, housing finance system, demographics, and housing tenure are examined. The effects of political uncertainty on housing markets are also explored.

Even with financial, economic and banking reforms implemented after the Asian Crisis, housing finance in the region is still relatively underdeveloped. While a financial crisis similar to what happened in 1997 is highly unlikely, several problems still plague Asian housing markets. Rapid urbanization and population growth provide challenges and opportunities to the region. Government intervention and political risks also play a significant factor in determining house price movements.

Keywords: housing, Asian Crisis, property prices  
JEL Categories: R21, N25, O18

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***Session 4e:  
Labor Market***

YIING JIA LOKE

Universiti Sains Malaysia

CHING SZU FOO

***Modeling Computer Ownership and its Usage at Home: A Case in***

The multi-functionality of computer and the increased accessibility of Internet have created a demand for computers at home which previously was concentrated in offices. Using the Heckman two-step model and by combining socio-economic factors and insights from Becker's (1965) theory on allocation of time in the household with information system theories, it is found that: i) the household allocation of resources, ii) age and gender and iii) household social environment are significant in determining computer purchase decision and its extent of usage in households. Responses collected from 500 computer users are used in the study.

Unlike most household technologies, the results also suggest that despite the multi-functionality of computer, it is perceived as a technology that facilitates the consumption process more than the production process.

Keywords: household computer ownership, household technology, household allocation of time  
JEL Categories: D12, D13, O33

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CHRIS MANNING  
Australian National University  
ALBERTO POSSO  
Australian National University

***Labour Market Outcomes Associated with Rapid Growth: Why Did the Southeast Asian Countries Lag Behind the NIEs?*** #170

This paper seeks to explain different real wage outcomes in two groups of East Asian economies: three New Industrialising Economies (Korea, Taiwan and Singapore), and three Southeast Asian economies (Malaysia, Thailand and Indonesia), all of which grew rapidly for several decades prior to the Asian economic crisis. Drawing on international and national data sets, the paper examines dynamic interactions between manufacturing growth and labour market outcomes. It adopts the dualistic Lewis model, which highlights the role of 'unlimited' supplies of labour in economic development and the transition towards the turning point, as a heuristic device to inform the empirical analysis. A two stage least squares model is employed to examine the determinants of real wages over two decades in the two groups of economies. This finds that both growth in output and labour-intensive exports were significant determinants of wages, the latter especially so among the NIEs. The model also finds that real wages rose sharply earlier in the development process in the NIEs. In a final section, the paper argues that neither labour supply nor institutional factors help explain different wage outcomes between the two groups of countries.

Keywords: Wages, Employment, Manufacturing Growth, Exports, East Asia  
JEL Categories: F160, J200, O140

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ISHAK YUSSOF  
Universiti Kebangsaan Malaysia  
RAHMAH ISMAIL  
Universiti Kebangsaan Malaysia  
ZULKIFLY OSMAN  
Universiti Kebangsaan Malaysia

***Workers Competitiveness in the Malaysian Education Sector*** #164

In Malaysia, the education sector, in particular the private education sector has been expanding rapidly as a result of government policy to liberalizing the sector and to turn Malaysia as a centre of excellence in the educational provision within

the Asian region. This subsequently requires a more competent and competitive workforce to spearhead the expansion of this sector. This paper aims to investigate determinants of workers competitiveness in the education sector so that future human resource development can be put forward to produce a more competitive workforce. The analysis in this paper is based on 567 executives/professionals in the education sector in three major states, i.e Selangor, Penang and Johor. The study will compute the workers' competency, performance as well as competitiveness index, and subsequently regress the index on several determinant factors which include human capital, employee attributes and personal characteristics variables. The linear regression model and Ordinary Least Squared (OLS) procedure will be used in data analysis. Our analysis shows that most of human capital variables and workers' attributes contributed significantly to workers' competency, performance and subsequently the competitiveness level.

Keywords: human capital, skills, competitiveness  
JEL Categories: J24

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KRISTEN SCHULTZ LEE  
The University at Buffalo  
HIROSHI ONO  
Texas A&M University

***Specialization and Happiness in Marriage: A U.S.-Japan Comparison***  
#020

The economics of family literature predicts that specialization increases the gains to marriage vis-à-vis efficient household production (Becker). The specialization model has clear implications regarding the incentives to marry and the division of labor within marriage but is more ambiguous regarding happiness within marriage. This paper examines the relationship between specialization and happiness in marriage in the U.S. and Japan. Our findings, based on the General Social Surveys in the U.S. and Japan, indicate both similarities and differences in the determinants of marital happiness in the two countries. In the U.S., the findings are mixed. Women's reported marital happiness in the U.S. is more likely to follow the predictions of the bargaining model where their happiness is determined by their own income. Men's marital happiness in the U.S. follows the predictions of the specialization model; they are happier if their wives are not working or, alternatively, if they are financially dependent on their wives. In Japan, we find support for specialization, particularly in the case of women; they are happier if they are specialized in the household and they have a higher household income. Our research highlights how marital quality is affected by the institutional context and the normative environment.

Keywords: gender, family, marital happiness, specialization, bargaining  
JEL-Codes: D13; J12; J16

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***Session 4f:  
Disasters and Risk Management***

BUDY P. RESOSUDARMO  
Australian National University  
CATUR SUGIYANTO  
Gadjah Mada University  
ARI KUNCORO  
University of Indonesia

***Livelihood recovery after natural disaster and the roles of aid: The case of 2006 Yogyakarta earthquake*** #118

The 27 May 2006 Yogyakarta earthquake caused the death of more than 5.7 thousand

people, more than 60 thousand people were injured and hundreds of thousands lost their houses. Bantul district was the most severely affected by the earthquake. This paper is an attempt to understand the determinants of livelihood recovery after this natural disaster and, in particular, the role of aid in that recovery process. A panel firm level survey was conducted visiting around 500 mostly small and micro enterprises in Bantul district twice: 6 months and a year after the earthquake. This paper argues that (1) smaller enterprises are more resilient to natural disaster and so able to bounce back faster, (2) industrial cluster system within a village does provide support needed by firms to recover, (3) the quality of village infrastructure is important, (4) it is important for donors not to give too much promise of financial support to enterprises, but rather just to distribute it when it is actually available. The faster it is distributed, the better the impact on enterprises affected by the earthquake, and (4) although over a longer period of time, the effectiveness of aid might well diminished, aid does improve a firm's ability to survive.

Keywords: Micro and small enterprise, industrial organisation, development economics and natural disasters  
JEL Categories: L20, O10, R58

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SAKUYA TAMURA  
Boston Consulting Group  
YASUYUKI SAWADA  
University of Tokyo

***Consumption Insurance against Unforeseen Epidemics: The Case of Avian Influenza in Vietnam #104***

We examine how households protected their livelihood against an unexpected negative shock caused by the highly pathogenic avian influenza (HPAI). We also compare HPAI with other shocks such as sickness, ceremonial events, typhoon, flood, drought, and unemployment. We apply the framework developed by Fafchamps and Lund (2003) to our unique household panel data collected in two Vietnamese villages exclusively for this study. While we reject the full consumption risk sharing hypothesis strongly, our empirical results reveal that informal credit transactions played an important role for those who affected by HPAI in coping with the unforeseen negative asset shock created by HPAI.

Keywords: Avian Influenza; Consumption Insurance; Risk Coping; Poverty  
JEL Categories: D12, O12

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YASUYUKI SAWADA  
University of Tokyo  
JONNA P. ESTUDILLO  
Foundation for Advanced Studies on International Development  
NOBUHIKO FUWA  
Chiba University  
KEI KAJISA  
International Rice Research Institute

***How do People Cope With a Natural Disaster? The Case of Super Typhoon Milenyo in the Philippines #103***

This paper aims to assess the impact of the tropical storm Milenyo on household welfare in the rural Philippines. The most important finding is that the rural households are able to cope with the disaster by changing its consumption expenditure in response to changes in commodity prices caused by the occurrence of a disaster. More specifically, the poorer households decrease their expenditure on protein and food taken outside their homes to shift their consumption towards cheaper alternative commodities such as fish. The availability of emergency informal transfers from close kins and aid from the local government in the form

of food basket and house repair materials have helped the households, most importantly the poor landless households, to cope with the damages brought by Milenyo. Finally and more importantly, we found that households shifted their fuel use away from fossil fuels such as liquefied petroleum gas, kerosene, and electricity toward firewood because of the sharp decrease in shadow prices of firewood due to Milenyo. The environmental consequence of such shifts should be investigated carefully in future studies.

Keywords: Disasters; Risk Coping; Poverty Dynamics  
JEL Categories: D12; D92; E21; O1

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STEPHAN HAGGARD  
University of California-San Diego  
MARCUS NOLAND  
Peterson Institute for International Economics  
East-West Center  
***Famine in North Korea Redux #081***

In the 1990s, 600,000-1 million North Koreans, or about 3-5 percent of the pre-crisis population perished in one of the worst famines of the 20th century.

North Korea is once again poised on the brink of famine. Although the renewed provision of aid is likely to avert a disaster on the scale of the 1990s, hunger-related deaths are already occurring and a dynamic has been set in motion that will carry the crisis into 2009.

North Korea is a complex humanitarian emergency characterized by highly imperfect information. This paper triangulates quantity and price evidence with direct observation to assess food insecurity in North Korea and its causes. We critique the widely-cited UN figures and present original data on grain quantities and prices. These data demonstrate that for the first time since the 1990s famine, the aggregate grain balance has gone into deficit. Prices have also risen steeply. The re-emergence of pathologies from the famine era is documented through direct observation. Although exogenous shocks have played a role, foreign and domestic policy choices have been key.

Keywords: famine, North Korea  
JEL Categories: Q1, O1, P2

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***Session 4g:  
Institutions and Human Capital***

DENNIS S. MAPA  
University of the Philippines  
MONICA FLERIDA B. SANDOVAL  
National Statistical Coordination Board (NSCB)  
DAVID JOSEPH EMMANUEL B. YAP II  
University of the Philippines

***Regional Economic Growth Convergence in the Philippines #161***

This paper investigates the presence of stochastic and dynamic convergence of the 14 regional economies in the Philippines in terms of per capita Gross Regional Domestic Product (GRDP) using regional panel data from 1988 to 2007. Stochastic convergence, which indicates convergence of regions in the long-run, is tested using Levin, Lin & Chu (LLC) and Im, Pesaran & Shin (IPS) panel unit root tests. The presence of convergence, on one hand, indicates that the economically laggard

regions are gaining on the economically better-performing regions with respect to per capita GRDP. On the other hand, the lack of convergence indicates a need to reevaluate existing regional and national economic policies on development. Dynamic convergence reveals several convergence characteristics of individual regions over time. Dynamic convergence is determined by the time-varying parameter (TVP) model derived using the Kalman Filter. The paper proceeds to examine the individual convergence behavior of each region based on the value of the estimate of the parameter of the TVP. The results show that out of the 14 regions studied, seven regions are found to converge towards the average of the national per capita GDP growth rate over 1988 to 2007 while six regions lag behind the average of the national per capita GDP growth rate over the same period. No region converges towards the economic growth rate of National Capital Region, the lead region used in the study.

Key words: Panel Unit Root Test, Time-varying Parameter (TVP) Model, Kalman Filter, Stochastic Convergence, Dynamic Convergence  
JEL Categories: R11, R12, O47

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EUI-GAK HWANG

The International Centre for the Study of East Asian Development

*A Close Look at the Urban Growth Sources in Japan, South Korea  
and China* #022

This paper attempts to look into the urban growth sources of major cities in Japan, Korea, and China, using separate panel data of respective countries. Available data sets across cities as well as across countries are mutually incongruous and diversified so widely. Nevertheless, efforts are made to selectively choose useful data and thus to identify the marginal effects of theoretically relevant variables on the urban growth in each respective country. The panel data set (consisting of 13 cities and 20 years) of Japan is relatively “long and wide” as compared to the Korean panel (7 cities and 21 years) which is called “long and narrow”. The Chinese panel set is “short and wide” with 64 cross-sectional units and two-year time series observations. Accounting for the urban growth source analysis using each country’s panel may provide us with some understanding of divergent contributions of factors in each country. The growth source analysis if founded on reliable data can be also used for making quantitative projections of future growth, taking account of causal interrelations between the growth sources. The contributions of factor productivity growth, physical capital, human capital, private and government spending, intra competitiveness, and cultural (ethnic) diversity are analyzed to prove quite robustness for both Japan and South Korea but for somewhat suspicious Chinese date.

Keywords: City growth, Decomposition, Ethnicity, Factor productivity, Fixed effects, Heteroskedacity, Human capital, Mediation, Panel.  
JEL Categories: O11, O40, R11, R50, Z10.

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DENNIS S. MAPA

University of the Philippines

KRISTINE JOY S. BRIONES

University of the Philippines

MANUEL LEONARD F. ALBIS

University of the Philippines

*What Really Matters for Income Growth in the Philippines: Empirical  
Evidence from Provincial Data* #174

The provincial per capita income growth in the Philippines can be considered as generally dismal in the last three decades. While neighboring economies, such as Thailand, have been growing by an average of at least 5% in per capita real

term during the period 1985 to 2003, the Philippines managed to grow only by a negligible 2%. The dismal economic performance of the Philippines during the rapid economic growth period in East Asia has been and continues to be a puzzle to development economists. What happened to other East Asian economies that did not happen in the Philippines? This paper aims to identify variables strongly correlated with provincial income growth in the Philippines by applying robustness procedures in determining which variables really matter with income growth. The extreme bound analysis (EBA) and Bayesian Averaging of Classical Estimates (BACE) are applied to fifteen determinants of income growth from a data set consisting of 74 Philippine provinces for the period 1985 to 2003. Of the fifteen variables identified as potential determinants of income growth the results show that the level of inequality of a province matters to income growth. The high level of inequality is a serious obstacle to Philippine economic growth. The study also shows that the percentage of young dependents, or those aged 0 to 14 years, over the total population also hinders the provincial income growth.

Keywords: Extreme Bound Analysis, Bayesian Averaging of Classical Estimates, Inequality, Young Dependents

JEL Categories: O18, O15, R11

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GEETA KRISHNASAMY

Multimedia University

ELSADIG MUSA AHMED

Multimedia University

*Regional Productivity Growth Analysis in Asia: Application of Data  
Envelopment Analysis* #003

This paper adopts the meta-frontier framework using the Malmquist Productivity Index (MPI) to measure and compare the productivity growth performance of countries in Asia under different technologies. This paper presents a number of useful decompositions of the metafrontier-MPI (MMPI) which can provide useful insights into the level of catch-up achieved by different groups of countries relative to the Asian frontier as a whole. This study uses a cross-country data set covering 14 countries in Asia for the period 1980-2006. These countries are grouped into three regions, namely, Southern Asia, Eastern Asia, and ASEAN5, in order to analyze the technological gap and catch-up of each of these regions with respect to the Asian technology. Using the DEAP software, we find that Southern Asia (which includes Bangladesh, India, Pakistan, and Sri Lanka) managed a larger technical change and showed a better productivity improvement relative to the Asian frontier during the 1980-1990 period. Overall, during much of the study period, countries in the Southern Asia region on average have shown an improvement in productivity, the only exception being the first period (i.e., 1981-1985) where a decline in productivity is recorded. The East Asian group showed catch-up in total factor productivity growth in only one of the subgroups, i.e., 2001-2006. The ASEAN5 region is the only region which has recorded a strong and consistent productivity growth performance throughout the period of study.

Keywords: Technical efficiency, technological change, productivity growth, Asia, metafrontier, technology gap, data envelopment analysis, Malmquist productivity index

JEL Categories: JEL030, JEL047, JEL057

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*Special ERIA Session 2:  
Narrowing Gaps of Economic Development*

TOMOHIRO MACHIKITA

Institute of Developing Economies, JETRO, Japan, Masatsugu Tsuji, University of Hyogo,  
and Yasushi Ueki, Bangkok Research Center, JETRO, Thailand

***Firm-Level Evidences on Innovation and Technology Sources from Indonesia, Thailand and Viet Nam #234***

We empirically examine effects of firm-level perceptions of business environments on decision-making on innovation. Using a pooled data composed of the sub-datasets of Indonesia, Thailand and Viet Nam that was constructed by mail surveys, we estimate binary probit models to verify factors promoting (1) four categories of innovation defined according to Schumpeter's concept, and (2) access to different sources of new technologies or information necessary for innovation. On the assumption that both degrees of importance and satisfaction with a specific business condition for firms affects their decision-making on investments in innovation, we propose a "D-score," which is a simple difference between these degrees of importance and of satisfaction. From the analysis, there are not common factors consistently affecting innovations and sources of new technologies by MNCs and local firms. An important finding is that technology transfer from MNCs is not the most important sources of new technologies and information for local firms. MNCs tend to cooperate with other MNCs, while local firms work together with local firms and local bodies.

Keywords: agglomeration, cluster, innovation, public policy  
JEL Categories: O14, O31, R12, R58

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**MASAMI ISHIDA**  
Institute of Developing Economies/JETRO  
***Narrowing Gaps of Economic Development between Forerunning ASEAN and CLMV Countries #235***

Following the first-round test projects under the Economic Research Institute of ASEAN and East Asia (ERIA) in 2007, the project on "Development Strategy for CLMV Countries" is conducted as one of the second year's projects. This paper presents the outline of the project. In order for CLMV countries to attract more foreign direct investment (FDI) and participate in the production network prospered in the East Asia, new industrialization strategies based on new economic geography are required. The project employs full of field work as well as theoretical thought and lists up candidates of the location for special economic zones (SEZ), reflecting the development experiences of forerunning ASEAN countries. Questionnaire survey on investment climate of CLMV countries is also conducted to consider supplementary policy packages.

Keywords: Special economic zones, port, national border, Greater Mekong Subregion (GMS)  
JEL Classification Codes: R11, P45, H54

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**SHUJI UCHIKAWA**  
Bangkok Research Centre, JETRO  
***Development of Multi-tier Subcontracting System in India #236***

In India, an enhancement of production volume and competition encouraged multinational enterprises (MNEs) to procure parts and components from the domestic market to save procurement costs in the 1990s. As a result, transactions between large enterprises including MNEs in the first tier and medium enterprises in the second tier notably increased. Small enterprises in the unorganized sector, which is employing less than 10 workers, were newly established and started supplying parts to medium enterprises in the second tier. A rapid increase in their production was reflected in the high growth of value added in three unorganized industries: electrical machinery, communication equipment, and motor vehicle industries.

During the 2000s, growth rates of gross value added in the organized sector, which is employing 10 or more workers, accelerated. However, companies in the second tier selected only efficient subcontractors. Consequently, the number of enterprises in three unorganized industries clearly decreased. On the other hand, TFP in the four unorganized industries, i.e., machinery, electrical machinery, communication equipment, and motor vehicles, improved due to the accumulation of relation specific skills and the exit of inefficient enterprises.

Keywords: India, Subcontracting  
JEL Categories: D29, L63, and L69

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***Session 5a:  
Macroeconomic Policy***

**TURKHAN ALI ABDUL MANAP**  
International Islamic University Malaysia  
***Sources of Macroeconomic Fluctuations in China: A Structural (Cointegrated) VAR Approach #082***

This paper investigates the sources of macroeconomic fluctuations in China using the Structural (Cointegration) Vector Autoregression (SVAR) technique and evaluates the impact of various macroeconomic shocks (foreign, domestic supply, trade balance, domestic demand and nominal shocks) on domestic key macroeconomic variables, namely output, the real effective exchange rate (REER), the real money balance, and price. The solution a modified AS/AD (ISLM) model based on Dibooglu and Aleisa (2004) and Kutan and Dibooglu (2005) is used as a guideline to impose long-run restrictions a la Blanchard and Quah (1989) to achieve the identification of the structural VAR model. The results shows that while domestic supply shock explain most of the fluctuations in Chinese output in both the short run and long run, nominal shock also play an important role. Foreign, trade balance and domestic demand shocks appreciate REER while domestic supply shock depreciates REER. Domestic demand shocks are the single most important factor in explaining the movements of the real money balance at all horizons. Foreign, trade balance and nominal shocks drive the price level up while domestic supply and real demand shocks pull the price level down. The domestic supply shock is the leading cause of price change in the long run.

Keywords: Macroeconomic fluctuations, Structural Break, AD-AS (ISLM), structural VAR, Impulse Response Function, Variance Decomposition, China

JEL Classifications: C32, C82, E12, E32

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**DONGHYUN PARK**  
Asian Development Bank  
**GEMMA ESTHER B. ESTRADA**  
Asian Development Bank  
***Are Developing Asia's Foreign Exchange Reserves Excessive? An Empirical Examination #011***

Developing Asian countries have accumulated foreign exchange reserves on an unprecedented scale in recent years. There is a growing consensus that Asia's reserves now substantially exceed the levels required for precautionary purposes – i.e. self-protection against currency crisis. The central objective of our paper is to informally and formally test whether reserves in developing Asia have in fact reached excessive levels. Informal tests of reserve adequacy based on widely used rules of thumbs such as the Greenspan-Guidotti rule unambiguously indicate the presence of sizable excess reserves. To test for excess reserves more formally, we use panel-data econometric analysis based on Edison (2003). Our estimation results



indicate the presence of large and growing excess reserves since 2002. The results of both informal and formal tests thus confirm the popular belief that developing Asia now has excessive foreign exchange reserves. Therefore, the short-run policy challenge for Asian governments is to manage the region's burgeoning excess reserves more actively and use them more productively.

Keywords: Foreign exchange reserve, Asia  
JEL Categories: F31

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MASAHIRO ENYA  
Osaka International University  
*Asset Price Fluctuations and Macroeconomic Behavior in East Asia*  
#074

This paper examines the relationships between asset price fluctuations and macroeconomic behavior in East Asia. The 1997 Asian crises brought about significant changes in bank's balance sheets and household's balance sheets. Banking sector has shifted its credit provision from corporate to household. On the other hand, household' debts have expanded. The structural changes in sectoral balance sheets might affect the monetary transmission. This paper addresses the following questions for East Asian economies: How did the asset prices affect macroeconomic behaviors? ; Have the asset price impacts changed recently? ; What are the differences between property price impacts and equity price impacts?

Using standard event study and VAR impulse-response analysis, this paper presents the following findings; the beginning of output slowdown after a property bust coincided with the beginning of the bust itself, and was quicker than that after an equity bust; in Korea and Hong Kong, the impacts of both property price shock and equity price shock on real economy have become larger and more significant recently; in Thailand, the impact of a property price shock on real economy remained limited even recently, although the impact of an equity price was significant.

Keywords: house prices, share prices, boom-bust cycles, event analysis, VAR analysis, wealth effect, financial accelerator, East Asia  
JEL Categories: E3, E4, O16, O5

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EIJI OGAWA  
Hitotsubashi University  
KENTARO IWATSUBO  
Kobe University  
*External Adjustments and Coordinated Exchange Rate Policy in Asia*  
#014

This paper estimates structural VAR models with contemporaneous restrictions based on the neo-classical and Keynesian theories to analyze which is the cause of current account surpluses of East Asian countries: the "saving glut" or undervalued currencies. The analytical results show that it is only China where its own GDP is a major determinant of current account while real effective exchange rates of home currencies are major determinants of current accounts of other East Asian countries. Accordingly, the request for the revaluation of the Chinese yuan may not be effective to reduce the current account surplus in China while the appreciations of currencies may be effective in reducing current accounts for other Asian countries. We then investigate whether a revaluation of the Chinese yuan can improve or deteriorate current account surpluses of other East Asian countries. The analytical result is that a revaluation of the Chinese yuan improves the current accounts of Japan, Korea, Indonesia, and Thailand, holding their real effective exchange rate

unchanged. In other words, the major countries of East Asia have substitutable trade structures with Chinese economy. Only the revaluation of the Chinese yuan might not reduce Chinese current account surplus and even improve East Asian current account surpluses. Coordination of currency policies among East Asian countries is needed for solving the global imbalance.

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## Session 5b: *Foreign Direct Investment*

LUDO CUYVERS  
University of Antwerp  
JOSEPH PLASMANS  
University of Antwerp  
RETH SOENG  
University of Antwerp  
DANIEL VAN DEN BULCKE  
University of Antwerp

### *Determinants of Foreign Direct Investment in Cambodia: Country-Specific Factor Differentials* #055

The paper intends to uncover factors influencing inward FDI in Cambodia by empirically studying its economic and geographical as well as political determinants. Panel data analysis is used to investigate the factors affecting both approved FDI and realized FDI in the Kingdom of Cambodia during 1995-2005 by means of an economic model and panel data sets for both approved and realized FDI from seventeen and fifteen home countries, respectively. The major difference with most previous empirical studies on other countries resides in the use of explanatory variables in relative terms and in the applications of several diagnostic tests for choosing the best econometric estimation technique. Random effects estimation proved to be the most suitable model for estimating approved FDI, while a pooled OLS model performed statistically better for the estimations of realized FDI.

The estimation results show that the determinants of approved FDI and realized FDI are consistently similar, but not identical. The FDI home country's GDP growth rate, its bilateral trade with the host country, and the exchange rate have a positive impact on inward FDI flows into Cambodia. As expected, geographical distance negatively affects the level of FDI inflows in Cambodia.

Keywords: Foreign Direct Investment, Country-specific factor differentials, Cambodia

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KAZUYUKI MOTOHASHI  
University of Tokyo  
YUAN YUAN  
University of Tokyo  
*R&D Spillovers from Multinational Firms and Domestic Firms:  
Evidence from Auto Industry and Electronics Industry* #053

This study examines the different R&D spillovers from multinationals and local firm in auto industry and electronics industry. In auto industry, R&D spillovers from multinationals are positively and through backward linkages, but there is no evidence of spillovers from local firm's R&D activities. On the other hand, in electronics industry, there is no evidence of spillovers from foreign firms' R&D, however, spillovers from local firms are positively and through backward linkages.

Jel Classification: O1; O3; F2; L6  
Keywords: R&D; Spillover; Foreign direct invest; China; Productivity

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**PREMA-CHANDRA ATHUKORALA**

Australian National University  
**TRAN QUANG TIEN**  
Australian National University

***Foreign Direct Investment in Industrial Transition: The Experience of Vietnam #123***

This paper surveys the evolution of the foreign investment regime in Vietnam in the context of market-oriented reforms undertaken over the past two decades, and examines the role of foreign direct investment (FDI) in the process of industrial transition from comparative regional and global perspective. The paper begins with an overview of FDI policy and investment environment in Vietnam. Trends and patterns of FDI are then examined, focusing in turn on trends in total inflows against the backdrop of regional and global trends, source-country and industry composition. The next section examines development impact of FDI, with emphasis on the role of foreign-invested enterprises in the process of linking Vietnamese manufacturing to rapidly growing regional and global production networks. A key theme running through the analysis is that both the rate of FDI involvement in the economy and the national developmental gains from FDI depend crucially on the conduciveness of the domestic economic policy environment for market-based decision making.

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**REMCO H. OOSTENDORP**

VU University Amsterdam  
**TRAN QUOC TRUNG**  
Ministry of Planning and Investment, Vietnam  
**NGUYEN THANH TUNG**  
Management Development Foundation (MDF)

***The Changing Role of Non-Farm Households Enterprises in Vietnam #070***

In this paper we study the importance of the non-farm household enterprise (NFHE) sector in Vietnam. We do find that NFHEs increase income and reduce between-household inequality. However, the role of the NFHE sector has been diminishing, especially in urban areas, and NFHEs have been affected by trade liberalization in the period 1993-2002. In terms of policy, this suggests that there is increasing scope for targeting NFHE sector policies at those NFHEs that are in the best position to benefit from the new opportunities in the liberalizing environment.

Keywords: Household enterprises, income, inequality, trade liberalization, Asia, Vietnam

JEL Categories: D21, D31, F15, O14, O15

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***Session 5c:  
International Trade***

**AMZUL RIFIN**

University of Tokyo  
Bogor Agricultural University

***The Effects of Export Tax on Indonesia's Crude Palm Oil (CPO) Export Competitiveness #047***

Crude Palm Oil (CPO) is one of the main export commodity of Indonesia. Besides as an export commodity, it is also an essential raw material in producing cooking oil. In order to secure the availability of domestic CPO, the government of Indonesia imposed an export tax policy in September 2004. The objective of the export tax was to control the cooking oil price at affordable price. The objective of this study is to describe the export tax policy on CPO imposed by the Indonesian government and to analyze the effect of the export tax on Indonesia's CPO export competitiveness compared with Malaysia, the main competitor. An export ratio equation between Indonesia and Malaysia is constructed using panel data approach. The dependent variable is CPO export to several countries of both countries, meanwhile the independent variables includes price ratio, export tax ratio, refined palm oil export ratio and exchange rate volatility ratio. The result shows that the Indonesia's export tax policy will make the CPO export competitiveness to decrease.

Keywords: Crude Palm Oil (CPO), export tax, Indonesia  
JEL Categories: F13, F14, Q17

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**CRISTELA GOCE-DAKILA**

De La Salle University

***The Spatial Impact of New Technology on the Transport Sector in the Philippines : A General Equilibrium Approach #191***

This paper presents a transport-oriented spatial general equilibrium (SCGE) model based on a five region social accounting matrix (SAM) specially constructed for the Philippines. The SAM is composed of thirty-four production sectors (with disaggregation of the transport sector into water, air and land transport services), fifteen household income groups (low, middle and high income households for each of the 5 regions) and four institutions – households, firms, government and foreign sector. It then depicts the spatial impact of a technological improvement within the transport sector across firms and households in each of the five administrative regions in the Philippines. The paper finds that the welfare effects of transport infrastructure investment, as measured by equivalent variation, are highest in middle income households in the richest and poorest regions in the Philippines. Increase in interregional economic activity as measured by the change in impedance ratio is highest in the regional transport sector where technological innovation originated.

Keywords: technological improvement, spatial impact, social accounting matrix, general equilibrium

JEL Categories: D58-Computable & Other Applied Gen. Equilibrium Models, O53: Economy-Wide Country Studies in Asia, K13- Gen. Equilibrium & Welfare Economic Analysis, Q55: Technological Innovation

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**INNWON PARK**

Korea University

**SOONCHAN PARK**

Kongju National University

***East Asian Regional Trade Agreement: FTA vs CU? #037***

Overlapping bilateral free trade agreements (FTAs) are proliferating in East Asia. Quite a few economists worry about the spaghetti bowl phenomenon expected from the proliferating East Asian regional trade agreements (RTAs). The complicated web of hub-and-spoke type of FTAs can result in high costs for verifying rules of origin (RoO). As an alternative policy option to avoid the negative effect of trade

deflection, customs unions (CUs) should be examined. Most of the theoretical analyses on the formation of CUs highlight stronger positive welfare effects compared to FTAs. However, there is a lack of empirical evidence to support the second best theory of customs unions. This paper is an attempt to fill this gap by applying two methodologies, an ex-ante simulation approach and an ex-post econometric approach. In particular, we quantitatively estimate the trade effect of CUs and FTAs by adopting a Gravity regression analysis. In general, we find that a CU is a superior type of RTA to an FTA in terms of creating more intra-union trade. In addition to analyzing the trade effects of RTAs according to type, we quantitatively evaluate the welfare and output effects of CUs for East Asia (an ASEAN+3 CU and a China-Japan-Korea CU) compared to FTAs by applying a computable general equilibrium (CGE) model analysis. The East Asian CUs adopt a system of common external tariffs (CET) based on simple-averaged, import-weighted, consumption-weighted, and minimum rates. Overall, we find that the ASEAN+3 CU with the minimum CET is the most desirable type of RTA for both East Asian member countries and the world economy as a whole.

Keywords: free trade agreements, customs unions, rules of origin, common external tariffs, Gravity, CGE, East Asia, ASEAN+3  
JEL Categories: C68, F13, F15, O53

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**Session 5d:  
Financial Market**

CHEU SEE PENG  
CIMB Bank Berhad  
YIING JIA LOKE  
Universiti Sains Malaysia

***Credit Cardholders: Distinguishing the Good Apples from the Bad Apples*** #050

Credit card is a double-edged sword. While the credit facilities offered by credit card provide liquidity for unforeseen circumstances, it also tempts one to overspend. The “buy today, pay later” lifestyle is becoming a concern as credit card debts and bankruptcy due to credit card bad debts is on the rise globally.

This paper investigates the factors that distinguish a cardholder who uses the credit card as a convenient payment tool with a cardholder who uses the credit card as a credit instrument. Using the logistic regression model, it is found that socio-demographic variables such as gender, marital status, income and education level are significant in profiling the type of credit card user. Credit education is found to be important in shaping responsible usage of credit cards. The study also analyses the drivers to credit card ownerships. 617 responses from active credit cardholders in Malaysia are used in this study.

As credit facilities offered through credit cards are unsecured credit, the findings in this paper will help shape accurate policy measures to minimize the possible negative impacts to the economy.

Keywords: Credit card, Revolving credit, Consumer credit  
JEL Categories: D12, D14, E51

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MASAHIRO INOGUCHI  
Kyoto Sangyo University

***Bank Loans and Real Estate Prices in Asia: The Influences of Real Estate Prices on Lending Behavior of Domestic Banks*** #046

This paper examines if and how fluctuations in real estate prices affected bank lending before and after the 1997 crisis in Malaysia, Singapore, and Thailand. Since the crisis, the corresponding literature claims that the rise and fall in the price of real estate, which was used as collateral, affected bank lending and the macroeconomy in these East Asian countries. This study implements a dynamic model of bank lending and employs a test utilizing the panel data of domestic bank balance sheets in order to estimate the influence of real estate prices on new bank lending in Malaysia, Singapore, and Thailand. In addition, the paper examines the actual conditions surrounding the role of real estate as collateral in relation to these countries' bank loans. The regression results suggest that fluctuations in real estate prices can impact domestic bank lending, and did so especially after the crisis in Thailand, and that domestic bank lending behavior varied after the crisis in these countries.

Keywords: Lending of domestic banks, Real estate price, Collateral, Asia  
JEL Categories: E44, G21

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JAMIL PAOLO S. FRANCISCO  
Ateneo de Manila University  
***Stock Market Volatility and Liberalization*** #007

This research study examines the historical volatility of returns in the Philippine stock market from January 1984 to January 2004 to determine whether liberalization had increased the volatility of stock returns. Following a theoretical framework derived from the Tauchen and Pitts (1983) price-variability model, supplemented by Gerlach's (2005) ideas on the effect of imperfect information on asset price volatility, liberalization is seen to have opened up the market to a greater number and an increased participation of speculative investors who rely on imperfect information in making investment decisions. This leads to huge price swings whenever new information arrives. A TGARCH specification based on Jayasuriya (2002) is used to model the regressions of the conditional mean and conditional variance that are simultaneously performed on dummy variables representing liberalization along with other economic variables. The empirical study confirms the hypothesis, with the coefficient of the post-liberalization variable receiving a statistically significant, positive value. Results also show an increase in the level of returns after liberalization. Although market opening may have been completed more than a decade ago, its negative effects on financial stability continue to be relevant. It is therefore recommended that policies be adopted to further improve market transparency and address the problems of asymmetric information that aggravate the negative volatility effects of liberalization.

Keywords: Stock Market Volatility, Financial Liberalization, TGARCH  
JEL Categories: G10, G14

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TURKHAN ALI ABDUL MANAP  
International Islamic University Malaysia  
RUZITA MOHD AMIN  
International Islamic University Malaysia  
SALINA H. KASSIM  
International Islamic University Malaysia  
***The Impact of Monetary Policy on Stock Prices: Evidence from Standard and Structural VAR*** #072

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**Session 5e:**

## Education

PHANHPAKIT ONPHANHDALA

Kobe University

TERUKAZU SURUGA

Kobe University

### *Farmer Education, Agricultural Efficiency and Rural Development in Lao PDR #129*

We focus our study on the agrarian transition in Lao PDR, a country overwhelmingly dependent on agriculture. Some 80% of a population lives in rural areas and most are near-subsistence farmers engaged in rice-based agriculture. The large role agriculture plays can hardly be overlooked. Given the paucity of evidence, this paper provides a research on the determinants of agricultural efficiency and rural development by analyzing the marked differences between the upland and the lowland farming of the country.

Our original contribution is to explore the association between farmer education and the adoption of modern agricultural practices in Lao PDR. We find that the returns to farmer education are strongly positive, particular for a completion of primary cycle. Moreover, a better educated farmer is more likely to use new technology, and to have market access and off-farm activities. Despite the large public investment in irrigation, its role is very limited. The research suggests that the support policy on farmer education will be decisive not only for the success of the agrarian transition process but also the long term development of the country.

Keywords: Returns to Education, Farm Efficiency, Agrarian Transition, Lao PDR  
JEL Categories: O13, O15, Q12

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CHIH-HAI YANG

National Central University

CHUN-HUNG A. LIN

Tamkang University

CHIEN-ZU LIN

National Central University

### *Return to Graduate Education in Taiwan: The Impact of Graduate Education Expansion #120*

This paper analyzes the dynamics of rate of return to the postgraduate education and the determinants of wage premium for postgraduate labor, especially for the impacts of higher education expansions, in terms of quantity and quality, since the late 1990s in Taiwan. Utilizing a quasi-panel data over the 1990-2004 period and employing the technique of double fixed effect model, the empirical results first confirm the existence of wage premium for workers with a postgraduate degree. However, the analysis on the dynamics of wage premium finds that it ranged only 1.40% to 11.67% and decreased sharply in 2004, indicating that the pecuniary reward for postgraduate qualification seems not as high as expected. Along with the rapid higher education expansion, the concern about its negative impacts on return to education is witnessed in this study. The sharp increase in the supply of postgraduate labors appears to have a negative impact on individual's wage premium. Similarly, declining in the postgraduate labor quality along with the higher education expansion experienced a negative wage effect.

Key words: Postgraduate, Wage premium, Education expansion,  
JEL codes: I21, J24, J31, J48

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CHRIS SAKELLARIOU

Nanyang Technological University  
*Demand for Skills, Supply of Skills and Returns to Schooling in Cambodia #068*

In this paper I take a detailed look into the returns to schooling in Cambodia using the 1997 and 2003-04 Socioeconomic Surveys of Households and alternative estimation techniques (OLS vs. Family Fixed Effects and Instrumental Variables). The main focus of the analysis has to do with differences by sector (public vs. private). In Cambodia, the average educational attainment of workers in the public sector is significantly higher compared to the private sector. Without considering issues of selection into the public vs. the private sector, the wage premium for one additional year of schooling in the private sector is about twice that in the public sector for both men and women. Furthermore, the average return to one additional year of potential labor market experience is higher in the private sector. This raises questions about the reasons for the self-selection of more educated workers in the public sector in Cambodia. The picture changes drastically, especially in the case of female employment, once the assumption that the location of individuals in the public and private sectors is the outcome of a random process. However, after correcting for selection bias using Heckman's correction, one additional year of schooling still increases earnings by more in the private sector for men, but the spread between sectors narrows. However for women, one additional year of schooling increases earnings in the public sector by more than in the private sector. Furthermore, now the return to one additional year of potential labor market experience is significantly higher in the public sector, for both men and women. Other findings indicate that the supply of more educated workers has outstripped demand, resulting in a decline in the return to tertiary education and a stable return to secondary education. The dynamics of the demand and supply of skills and their changes over the time suggest that the supply of post-primary skills is adequate, except perhaps in the private sector.

Keywords: Demand-Supply of skills; Return to schooling; Cambodia  
JEL codes: J24, J33, J45

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DAVID NEWHOUSE

World Bank Office, Jakarta

DANIEL SURYADARMA

Australian National University

### *The labor market effects of vocational education in Indonesia #073*

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## Session 5f: Disasters and Risk Management

MASAHIRO SHOJI

University of Tokyo

### *Does Contingent Repayment in Microfinance Help the Poor During Natural Disasters? #080*

Microfinances in Bangladesh introduced a contingent repayment system beginning in 2002, which allowed rescheduling of savings and installments during natural disasters for affected members. This paper is one of the first attempts to evaluate the system employing a unique dataset. In using evidence from a flood in 2004, I find that rescheduling plays the role of a safety net by decreasing the probability that people skip meals during negative shocks by 5.1%. This effect is even higher on the landless and females. This study attempts to contribute to the issue regarding the poverty reduction effect of Microfinances.

Keywords: Microfinance, Safety net, Natural disasters, Bangladesh

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**PRIJONO TJIPTOHERIJANTO**  
University of Indonesia

*Capacity Management for Disaster Risk Reduction: Lesson Learned  
from Tsunami in Indonesia #025*

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**GIANG THANH LONG**  
National Economics University

*The Vulnerability of Vietnamese Elderly to Poverty: Determinants and  
Policy Implications #039*

This paper identifies the determinants of the elderly poverty in Vietnam using household data in 2004. We find that urban and rural elderly they should be analyzed separately, as they are substantially different. For urban elderly, the results generally show that higher ages, marital status, residential regions, and working status have significant impacts on the likelihood of poverty. In rural areas, higher ages, gender, marital status, ethnicity, residential regions, household composition, and household size are determinant factors of the likelihood of poverty for the elderly. Remittances and social security benefits are found to be important for reducing poverty of the elderly households, particularly in the rural areas. We also found some factors which are less important for both areas, including characteristics of household heads. We then formulate policy priorities toward the elderly, including social security reforms.

Keywords: elderly, poverty, Vietnam  
JEL classification: I32, I38

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**DINAH PURA T. DEPOSITARIO**  
University of the Philippines Los Baños

**RODOLFO M. NAYGA, JR.**

University of Arkansas

**XIMING WU**

Texas A&M University

**TIFFANY P. LAUDE**

University of the Philippines Los Baños

*Effects of Information on Consumers' Willingness to Pay for Golden  
Rice #150*

We examine the effects of information on consumer bidding behavior using fifth price auction for golden rice. Our findings show that mean willingness to pay (WTP) bids are highest under positive information, followed by no information, negative information, and unexpectedly lowest with two-sided information. Participants may have put more weight on the negative when faced with both positive and negative information. There is also a minor difference in WTPs with respect to the reference price between positive information and no information. Further, the marginal effect on WTP of positive information vis-à-vis no information is minimal. This suggests that the positive information faced by consumers may not be compelling enough to drastically increase WTP bids for a genetically modified product such as golden rice.

Keywords: bidding behavior, consumers' willingness to pay, fifth price auction,  
golden rice, information effects  
JEL code: D44

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## **Session 5g: Growth, Poverty and Development**

**YUAN-HO HSU**

National Cheng Kung University

**WANIDA KHONGKIM**

National Cheng Kung University

*Government Human Capital Investment and Economic Growth: A  
Case Study of the Four Asian Tigers #106*

The economic growth in Taiwan, Hong Kong, Singapore and South Korea had been considered as models for the developing countries in the 1980s. This paper investigates whether government human capital investment contribute to economic growth in these countries for the past 25 years. Using government educational expenditure as proxy for human capital investment and allowing for 9-year lags for that investment to be effective, this paper uses panel data model to investigate the relationship between government expenditure and economic growth in these countries. The empirical results show that government education expenditure and trade openness are significant factors that promote economic growth in these four countries. This paper also finds that effective government education expenditure (expenditure multiplied by secondary school enrolment rate) is a more efficient proxy for public human capital investment.

Keywords: Human Capital Accumulation, Economic Growth, Panel Data,  
Government Expenditure on Education  
JEL Categories: O15, O11, C23, H52,

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**MICHAEL R. CABALFIN**

Philippine Institute for Development Studies

*Income, Poverty, and Human Development A Simultaneous-Equations  
Approach #097*

Analyzing the simultaneous relationships among consumption, health and education in the Philippines reveals that consumption has the greatest impact. Its effect on school participation is greater than that on health. Health outcomes have the second highest effect. Its effect is stronger on education than on consumption. Education has the weakest effect and is limited to consumption.

Increasing total spending alone decreases school participation. It is spending on education, food, clothing and transportation that enhance participation. Higher food consumption also increases incidence of illness. It is fish consumption and spending on health that decrease incidence of illness. The illness of employed members and of those not in the labor force reduce school participation. However, the illness of the head, of the spouse and among school-age members is positively associated with secondary and tertiary participation. Illness among the employed and among those not in the labor force reduce consumption. However, illness of the head and that of the spouse increase consumption. The education of the head, the employed and especially the spouse positively affect consumption but the education of those not in the labor force negatively affects consumption. Adult education and school participation among children do not affect the incidence of illness.

Keywords: Welfare, Human development, Health, Education  
JEL Categories: I30, O15, I10, I20

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**JESUS C. DUMAGAN**

Philippine Institute for Development Studies

*Implementing the US Chain-Type GDP Index Framework for Cross-*

**Country GDP Growth Comparisons: Application to ASEAN Countries**

#094

GDP in constant prices of ASEAN countries suffers from substitution bias by ignoring relative price changes and makes GDP growth and shares dependent on the base year. These analytical deficiencies led the US since the mid-1990s to convert GDP from constant to chained prices. Thus, cross-country comparisons in constant prices are analytically shaky even with the same base year. Therefore, this paper implements US GDP in chained prices in Indonesia, Malaysia, Philippines, and Thailand to alleviate substitution bias and prevent base-year dependence of GDP growth and shares for valid cross-country comparisons.

Converting UN GDP data from constant 1990 prices to chained prices affected Malaysia and the Philippines more than Indonesia and Thailand. Shares of GDP level during 2002-06 show Malaysia's industry sector expanded (43.6 to 47.6 percent) while its service sector shrunk (49.1 to 43.7 percent). In the Philippines, the agriculture sector shrunk (19.2 to 14.7 percent) while the service sector expanded (48.6 to 53.6 percent). Shares of GDP growth during 2002-06 show the industry sector drove Thailand's GDP growth, contributing around 54 percent, while the service sector drove GDP growth in Indonesia, Malaysia, and in the Philippines, contributing around 49, 49, and 60 percent, respectively, before and after conversion.

Keywords: Real GDP; Constant prices; Chained prices; Fisher index  
JEL classification: C43

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**HIDEFUMI KASUGA**

Kansai University

***Aid Allocation across Sectors: Does Aid Fit Well with Recipients' Development Priorities?*** #031

This paper investigates whether aid flows to developing countries fit well with their development priorities. In particular, we examine aid allocation across sectors in a given recipient country by using sectoral data on aid and indicators that measure the recipient's need for aid in each sector. Although the data show that inter-recipient aid allocation reflects the recipient's need, there is little evidence that inter-sectoral allocation fits with national priorities. We also examine whether allocative efficiency differs across regions and find that only in high and middle income East Asian countries inter-sectoral allocation reflects the recipient's need. Our evidence shows that coordination among donors fails and that the quality of bureaucracy and corruption in recipient countries impede efficient inter-sectoral allocation.

Keywords: Aid allocation; Donor performance; Foreign aid; Aid coordination; East Asia  
JEL Categories: F35; O10; O19

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***Session 6a:  
Macroeconomic Policy***

**SOYOUNG KIM**

Korea University

**JAEWOO LEE**

International Monetary Fund

***International Macroeconomic Fluctuations: A New Open Economy Macroeconomics Interpretation*** #049

This paper investigates international macroeconomic fluctuations in light of NOEM (New Open Economy Macroeconomics) models. A model with four major economic disturbances (technology shocks, labor supply shocks, preference shocks, and nominal shocks) is analytically solved to derive theoretical long-run identification restrictions. These restrictions are used to estimate a structural VAR model for three largest economies (the U.S., Euro Area, and Japan) over the post Bretton Woods period. Main findings are: (1) the signs of the dynamic responses are mostly consistent with theoretical predictions; (2) supply-side shocks (technology and labor supply shocks) explain most of fluctuations in cross-country output deviations; (3) preference shocks are the dominant source of real exchange rate fluctuations; (4) and productivity shocks played a prominent role in the recent global imbalances (large U.S. external deficit), while the current account has usually been influenced by all four shocks, with no single shock dominant in all periods.

Keywords: New Open Economy Macroeconomics, Structural VAR  
JEL Categories: F4

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**CHIA-CHING LIN**

Nanhua University

**KUN-MING CHEN**

National Chengchi University

***The Impact of Exchange Rate Movements on Foreign Direct Investment: Are There Third Country Effects?*** #182

This paper develops a real options model to examine the impact of exchange rate movements on FDI activity both theoretically and empirically. In contrast to previous studies, the effects of exchange rate changes of the third countries as well as the host country are analyzed. It is shown that while the depreciation of the host country's currency stimulates cost-saving FDI activity, the depreciation of the third country's currency deters it. In addition, exchange rate uncertainty of the host country and the third countries may have a positive impact on FDI activity if the correlation between these countries' currencies is high enough. Finally, the real wage rates of the host country relative to those of the third countries are negatively related to FDI activity. The panel data on Taiwan's outward FDI in China and Southeast Asian countries over the period 1985-2006 are employed to test the validity of the theoretical results. The empirical results are generally consistent with the prediction of the theory. These results suggest that there indeed exist third country effects of exchange rate movements on FDI activity.

Keywords: FDI, exchange rate, real options, third-country effects  
JEL Classification: F21, F31, G13

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**WONG CHIN-YOONG**

Universiti Tunku Abdul Rahman

**ENG YOKE-KEE**

Universiti Tunku Abdul Rahman

***Globalization of Production Structure and Macroeconomic Dynamics*** #107

This paper revisits the hypothesis that globalization may weaken central bank's monetary control by analyzing the potential effect of vertically globalized production structure that increasingly permeates the international production process on domestic macroeconomic dynamics under the foreign disturbances of productivity, demand, and inflation. We do so through the lens of New Keynesian model with Calvo-type staggered price setting and production function that uses foreign intermediate inputs. We find that central bank has to confront a policy tradeoff between stabilizing inflation and real output as exchange rates have transformed aforementioned foreign disturbances into domestic supply shocks channeled through real marginal cost.

Keywords: Vertically globalized production structure; Vertical specialization; New Keynesian Phillips curve; Policy trade-off  
JEL Categories: E3-5, F4

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ENG YOKE-KEE  
Universiti Tunku Abdul Rahman  
WONG CHIN-YOONG  
Universiti Tunku Abdul Rahman  
MUZAFAR SHAH HABIBULLAH  
Universiti Putra Malaysia

***Quantifying the Size of Underground Economy: A Revisit to the Currency Demand Approach DSGE Model #105***

This paper revisits the monetary method as a gauge of the size of underground economy in a dynamic stochastic general equilibrium model. By formalizing the demand for currency in underground economy as a residue of demand for currency between competitive economy without and with tax obligation, the subsequent derivation of the size of underground economy is not subject to any of the previously heavily criticized assumptions. Rather, we show that the velocity of circulation in underground economy can be determined endogenously. Besides, we argue that tax burden is a bounded sufficient and necessary condition for the presence of underground economy. Last but not least, we demonstrate that microfounded monetary method has outperformed other established monetary methods at any rate due to its mutual consistency between theoretical foundation and empirical findings.

Keywords: Underground economy; Informal sector; monetary method; Taxation  
JEL Categories: E20; E26; E41; H2; H3

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***Session 6b:  
Foreign Direct Investment***

ACHMAD TOHARI  
The Institute for Development of Economic and Finance  
***Foreign Direct Investment and International Tax Competition in East and Southeast Asian Countries #154***

World economies have become more tightly integrated in recent decades. Hence, FDI can move from one country to another in order to maximize their profitability. Both as a regional group and individual, Southeast Asian Countries (ASEAN) want to enlarge its competitiveness on attracting foreign capital. However, the presence of tax competition in ASEAN has not been well observed yet. Therefore, the objectives of this paper are: (1) to measure the tax burdens (effective tax rates) as an early indication of the presence of tax competition; and (2) to test several hypotheses in order to examine the presence of tax competition in ASEAN. Based on the tax burdens analysis, this paper finds the evidence of a significant decline in statutory and effective tax rates in recent years. Nevertheless, it is difficult to find evidence about its convergence. Investigation using econometric analysis for five hypotheses of tax competition in ASEAN are mostly not proven empirically. The only evidence that can be drawn is the significantly negative impact of capital mobility on effective tax rates. Furthermore, tax competition leads to under-provision of the public good, and the hypotheses that the size of a country and agglomeration matters for the outcome of the tax competition are not proven.

Keywords: Foreign direct investment; Corporate tax rate; International taxation  
JEL Categories: F23; H25; H32

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HIDEAKI SAKAWA  
Osaka University  
NAOKI WATANABEL  
Osaka University

***The Relationship between Managerial Compensation and Business Performance in Japan: New Evidence Using Micro Data #146***

This paper examines the relationship between the level of managerial compensation and the quality of corporate governance in Japan in the period following the bubble burst of 1991–95. There are three main findings. First, Japanese firms with weaker governance have greater agency problems in that managerial opportunism extracts higher compensation and the firm performs relatively worse. Second, these agency problems are more severe during the recessionary period of 1994–95. Finally, governance structures in industries with higher managerial compensation are relatively weaker than in other industries.

Keywords: Board of Directors, Corporate Governance, Managerial Compensation, Ownership Structure.  
JEL Categories: G30; G32; J33; L22

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QUN LIU  
Japan Bank for International Cooperation Institute  
***Corporate Financial Structure and Investor Protection #005***

This study examines the capital structure of firms in a cross-section of 46 developed and developing economies, focusing on the effect of the countries' legal environments. I report firm-level regressions for 46 countries intended to measure the relationship between corporate capital structure and the legal system worldwide, and also focus on the East Asia region to confirm my results. This paper provides evidence that indicates that firms operating within legal systems that provide better investors' protection tend to have capital structures with significantly less total debt, and more retained earnings.

Keywords: Corporate financing; Legal system; the East Asia  
JEL Categories: G32; G38; K40

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PRATIWI KARTIKA  
Centre for Strategic and International Studies  
***Industrial Agglomeration in Indonesia: Its Presence and Condition #132***

World economies have become more tightly integrated in recent decades. Hence, FDI can move from one country to another in order to maximize their profitability. Both as a regional group and individual, Southeast Asian Countries (ASEAN) want to enlarge its competitiveness on attracting foreign capital. However, the presence of tax competition in ASEAN has not been well observed yet. Therefore, the objectives of this paper are: (1) to measure the tax burdens (effective tax rates) as an early indication of the presence of tax competition; and (2) to test several hypotheses in order to examine the presence of tax competition in ASEAN. Based on the tax burdens analysis, this paper finds the evidence of a significant decline in statutory and effective tax rates in recent years. Nevertheless, it is difficult to find evidence about its convergence. Investigation using econometric analysis for five hypotheses of tax competition in ASEAN are mostly not proven empirically. The only evidence that can be drawn is the significantly negative impact of capital mobility on effective tax rates. Furthermore, tax competition leads to under-provision of the public good, and the hypotheses that the size of a country and agglomeration matters for the outcome of the tax competition are not proven.



Keywords: Foreign direct investment; Corporate tax rate; International taxation  
JEL Categories: F23; H25; H32

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### **Session 6c: Trade Liberalization and Industry**

**GANESHAN WIGNARAJA**

Asian Development Bank

**ROSECHIN OLFINDO**

Asian Development Bank

***Determinants of Export Performance in a Giant Economy: Evidence from Over 1,000 firms in China #084***

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**SHOICH HISA**

Hitotsubashi University

***Trade Pattern and Infrastructure of Road and ICT in East Asia #202***

In East Asia trade has expanding and its countries have performed high economic growth. Infrastructure is one of significant factors to decide volume of trade because it affects on transportation cost. In East Asia diffusion of ICT technology has one of the major contributors to expanding trade in East Asia. Especially in emerging countries as China, Malaysia, Thailand and Philippines ICT have been rapidly diffused since 2000, and the effect of ICT on trade has been rapidly increased. In addition for all the countries the diffusion of ICT may be required with expanding trade.

At the same time needs of infrastructure is different to a kind of commodity. Expanding trade with FDI is expected to increase a need of infrastructure of container or aircraft transport. Especially aircraft transportation is effective to trade of commodity which is time-sensitive and high value added commodities as semiconductor, capital goods, and supports a trade by FDI (vertical trade). On the contrary it is necessary to expand infrastructure of railway for trade between countries without huge income gap (horizontal trade). In East Asian some countries are connected by land, not sea. Investment for railway is necessary to expand trade in these neighbor countries.

Keywords: International Trade, Infrastructure, Gravity Model  
JEL Categories: F14, H54, P45

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**CHEE WOUI HOOY**

Universiti Sains Malaysia

**AHMAD ZUBAIDI BAHARUMSHAH**

Universiti Putra Malaysia

***The Impact of Exchange Rate Volatility on Trade Flows for East Asian Countries #190***

This paper investigates the impact of exchange rate volatility on trade flows in the East Asia countries over the period Jan1990-Aug2005. We found that conditional volatilities of East Asian currencies follow strong EGARCH process and they are largely exaggerated during the 1997 Asian financial crisis. Our bound tests show that the trade flows of East Asian countries have significant cointegrating vector with income, price differential and exchange rate volatility, and they are mostly income and price elastic. Controlling for asymmetric behavior of the exchange rates using EGARCH, exchange rate volatility is found to have significant negative impact on the exports of Indonesia and Singapore, and the imports of South Korea. In fact, our estimations of long run elasticity for income, price and exchange rate

volatility are in line with the magnitudes reported by Rahmatsyah et al. (2002) and Siregar and Rajan (2004), on Indonesia and Thailand, respectively.

Keywords: Exchange rate volatility, International trade, EGARCH, ARDL  
JEL Categories: F31

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**ARCHANUN KOHPAIBOON**

Thammasat University

***Export Creation of AFTA and the Response of the Private Sector: Evidence from Thai Manufacturing #038***

This paper examines the private sector's response to export opportunities induced by the ASEAN Free Trade Area (AFTA), using evidence from Thai manufacturing during the period 2003-06. In this paper, an explicit distinction between actual and preferential trade is made and an inter-product cross-sectional econometric analysis is undertaken. Our findings suggest that the private sector does not usually utilize AFTA tariff concessions because of the nature of trade between Thailand and other ASEAN countries, largely driven by the product fragmentation phenomenon, the presence of tariff exemption schemes, and the thin tariff margin. Rules of origin constraints are also binding. In addition, it is local and large conglomerate firms which are utilizing AFTA tariff concessions, compared to foreign firms where the use of concessions is considerably less prevalent. The key policy inference suggests that, given the nature of trade integration in Southeast Asia, it is very unlikely for FTAs and the like to be effective when used to promote intra-regional trade. It is simply distracting from the main game of multilateral and unilateral reform, which has played a key role driving the current economic success in this region.

Key words: Free Trade Agreement, Economic Integration, Thailand, ASEAN Free Trade Area  
JEL: F15, F53, O19, O53

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### **Session 6d: Financial Market**

**MARLIANA ABDULLAH**

Kolej Universiti Islam Antarabangsa Selangor

**SHAHIDA SHAHIMI ABDUL GHAFAR ISMAIL**

Universiti Kebangsaan Malaysia

***Operational Risk in Islamic Banks: Examination of Issues #188***

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**TZE-HAWL CHAN**

Multimedia University

**KHONG WYE LEONG ROY**

Multimedia University

***Business Cycle Correlation and Output Linkages among the Asia Pacific Economies #004***

Currency crises and financial instability in the 1990s have increased the needs of regional cooperation, hence leading to the proposition of optimal currency area (OCA). But only if shocks are symmetric, the cost of relinquish the flexible monetary policy is to be outweighed by the benefits of forming OCA. To tackle the issue, this paper studies the extent of business cycle correlation and output linkages among fifteen Asia Pacific economies during 1961-2004. The real outputs series which sourced from the Penn World Data were estimated in standardized international dollars to construct business cycles based on the Christiano-Fitzgerald (2003)'s asymmetric band-pass filtering method. On the whole, the selected APEC



members (especially ASEANs and NIEs) have achieved some important degree of business cycle co-fluctuations since the 1990s and further enhanced after 1997, most possibly attributed to the improved intra-trading and cross-boarder investments. For the US-Japan-ASEAN5 series, a dynamic analysis was conducted using the Autoregressive Distributed Log bounds test and the Unrestricted Error Correction Model (UECM) representation advanced in Pesaran et al. (2002). Nonetheless, the idiosyncratic and common shocks in ASEAN economies are more identical to the Japanese experience rather than the US's. The overall finding has signified the brighter likelihood of economic cooperation and regional currency arrangements among APEC members.

Keywords: Business Cycle Correlation, Output linkages, Band-pass Filtering, UECM  
JEL Classifications: E32, O47, C22, C51

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WAI-CHING POON  
Monash University

***The Augmented Monetary Conditions Index in Philippines #086***

This paper estimates the augmented monetary conditions index (MCI) over the quarterly period 1982:1-2004:4 in Philippines using bounds test approach (Pesaran et al., 2001) for cointegration analysis. The key transmission mechanism channels in the conduct of the Philippine's monetary policy is examined. Results reveal evidence of cointegration between the real output and its determinants (short-term interest rate, exchange rate, share price, and claims on private sectors) which imply the interest rate, exchange rate, asset price, and credit channels are the key transmission mechanisms channels in the conduct of monetary policy stance. The augmented MCIs are found tracking the inverse movements of the real GDP growth especially after 1990s. A few policy implications have put forward: 1) The real interest rate confines extremely well to the augmented MCIs; 2) Credit transmission mechanism channel has provided a weak short-run measure of domestic monetary conditions; 3) observation of the bond market is revealed as shallow and liquidity insufficiently, perhaps the bond market is dominated by the government securities. But, bond issues may become a cheaper alternative source of financing instead of depending on bank loans alone to smoothen transmission of monetary policy; and 4) asset price channel could be argued to be slim, perhaps stock market continues to suffer from insider trading and price manipulation

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KI-SEONG LEE  
KonKuk University  
JAI-WON RYOU  
KonKuk University

***Integration and Interdependence of East Asian Financial Markets after the Asian Financial Crisis #143***

After the 1997 Asian financial crisis, the East Asian financial markets were substantially liberalized and globalized. Using daily data on four East Asian economies (Japan, Hong Kong, Singapore and Korea) and the U.S., we analyze how strong the intra-regional financial integration is compared with the inter-regional financial integration. We also aim at finding out how the extent of intra-regional interdependence has changed after the U.S. subprime mortgage crisis struck the global financial market in August 2007. Our empirical analysis indicates that the East Asian stock markets are strongly integrated not only intra-regionally, but also inter-regionally with the U.S. stock market. On the other hand, the degree of integration among the East Asian bond markets, and thus the existence of spill-over effects of the regional interest rate shocks, is less remarkable. Our impulse response analysis suggests that the 2007 subprime mortgage crisis brought about a substantial change in financial linkages. The difficulty with forecasting of foreign exchange rates of East Asian currencies by shocks to the East Asian or U.S. interest

rates or the rates of return on equity implies that the reversal of capital flows and shortage of liquidity in the region undermined the stability of financial linkages in the region.

Keywords: regional financial integration, capital flows, asset market approach  
JEL Categories: F3, F4

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***Session 6f:  
Fiscal Policy Issues***

FANGLIN SU  
Guangxi Normal University  
DONGNI JING  
Guangxi Normal University  
JIEMING LIANG  
Guangxi Normal University  
RENBING YANG  
Guangxi Normal University

***An Empirical Analysis on China's Provincial R&D Knowledge Spillovers on using GWR #156***

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BINZHEN WU  
Tsinghua University

***Adverse Selection and Moral Hazard for Health Insurance: Evidence from Chinese New Cooperative Medical Scheme #111***

In 2003, China launched a heavily subsidized voluntary health insurance program for rural residents, the New Cooperative Medical Scheme (NCMS). This paper gives a systematic impact evaluation of the new program on the demand side. Particularly, we treat the introduction of the NCMS as a natural experiment to study the effects of the availability of health insurance on health care utilization, the choice of hospital, and out-of-pocket expenditure. We also examine the extent of the adverse selection of health insurance in rural China. Our study makes use of a unique dataset collected for the evaluation of the NCMS. We apply the regression counterpart of the difference-in-difference method, controlling for the selection on observable variables. In addition, several methods are applied for testing the identification assumption of the model. The results show that there is adverse selection. The NCMS does not significantly change participants' utilization of health care, but it does reduce participants' out-of-pocket health care expenditure without changing significantly the total health care expenditure. We also observe positive spill-over effect in terms of the utilization and negative spill-over effect in terms of the price of the in-patient service for the non-participants in the NCMS counties.

Keywords: Health Insurance; New Cooperative Medical Scheme; Moral Hazard; Adverse Selection.  
JEL Categories: I1, I18, I10

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JOSEPH J. CAPUNO  
University of the Philippines

***The spread of local government innovations in the Philippines under decentralization #211***

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**Session 6g:  
Regional Growth**

XIAOHUI YUAN  
JIN FAN

Jiangsu Administration Institute

***Analysis on Industrial Upgrading and Technical Progress in Yangtze River Delta Region of China during Globalization: 1997-2005*** #032

With the data of input-output tables of Jiangsu, Zhejiang province and Shanghai municipality of China in 1997 and 2005, which are located in the Yangtze River Delta of China, this paper analysis on the effects of technical progress and industrial structural changes in this region from 1997 to 2005. The research shows that: Firstly, the leading industry in Yangtze River Delta Region is still the secondary industry, especially in Zhejiang province, while the service function appearing gradually in Shanghai as the center city of the metropolitan area; Secondly, comprehensive effect of technical progress and structural changes makes the intermediate consumption demand of the primary industry decreasing, the secondary industry increasing and the tertiary industry decreasing in Jiangsu while increasing in Zhejiang and Shanghai; Thirdly, although the comprehensive effects of technical progress and structural changes in Yangtze River Delta are negative effects, the reasons are different; Fourthly, within manufacturing sectors, with keeping the competitive advantages in heavy chemical industries in Jiangsu and Zhejiang, Jiangsu mostly pays attention to high-tech industries while some light industries in Zhejiang. But the development of manufacturing in Shanghai takes hi-tech industries as the guide and gives full play to the advantage of technique intensity manufactures; Fifthly, technical progress does not play a role in the secondary industry in Yangtze River Delta, but industrial structural changes reduce the intermediate consumption of the secondary industry in Zhejiang and Shanghai; Sixthly, within service sectors, the intermediate consumption of commerce is comparatively higher in Jiangsu and Zhejiang, while social service in Shanghai; Seventhly, from the comprehensive effects of technical progress and structural changes, effects on service sectors expect the posts and telecommunications and catering services in Jiangsu are positive, while negative effects on most services expect commerce in Zhejiang and Shanghai.

Keywords: Intermediate Consumption; Technology Changes; Structure Changes; Yangtze River Delta Region of China

JEL Categories: R15, O18, O3

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JOEL RODRIGUE  
Vanderbilt University

***Foreign Direct Investment, Exports and Aggregate Productivity*** #013

This paper presents and estimates a model of foreign direct investment (FDI) and exports with heterogeneous firms. The model highlights the interaction between firms' location and export decisions and their effect on aggregate productivity and welfare. The model is estimated using plant-level Indonesian manufacturing data. The results are broadly consistent with the pattern of productivity, exports and FDI across plants. Counterfactual experiments suggest that there are substantial productivity gains due to international trade and FDI. They emphasize that evaluating the substitutability and complementarity of trade and FDI is crucial to determining the aggregate effects of trade and FDI policy.

Keywords: exports, foreign direct investment, firm heterogeneity, aggregate productivity, resource allocation

JEL Categories: C23, F12, F23, O47

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CONVENTION  
OF THE  
EAST ASIAN  
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