The Second Asia Think Tank Summit, co-hosted by ADBI and the University of Pennsylvania, brought together the heads of 32 leading think tanks in Asia and the Pacific with the aim of establishing a platform to facilitate the exchange of ideas across countries. The summit, held on 21–22 May, explored the economic and political challenges facing policymakers in the region and the role think tanks can play in developing constructive policy proposals and strategies for addressing key challenges in promoting regional economic cooperation and integration.

Detailed discussions focused on the impact of global economic trends on Asia, inclusive growth and equitable development, regional approaches to trade agreements, and the role of think tanks to ensure Asia’s harmonious development. ADB President Takehiko Nakao, in his keynote address, highlighted the important role of think tanks in advancing Asia’s economic cooperation and integration.

University of Pennsylvania’s James McGann, ADB President Takehiko Nakao, and ADBI Dean Naoyuki Yoshino discuss the role of think tanks in promoting Asia’s economic development at the Second Asia Think Tank Summit held at ADBI on 21–22 May.

For more information on this summit, please visit: www.adbi.org/event/6260.2nd.asia.think.tank.summit/.

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ADBI Addresses Asia’s Growth Challenges at IEA World Congress

With the world economy still in recovery mode from the effects of the 2008 global financial crisis and various emerging risks on the horizon, ADBI organized an international debate on Asia’s economic prospects with leading experts on the region’s growth and development. ADBI Research Director Ganeshan Wignaraja (far right in photo) and (from left in photo) Asian development experts Jong-Wha Lee (Director of the Asiatic Institute, Korea University), Yiping Huang (Professor of Economics, Peking University), and Isher Ahluwalia (Chairperson, Board of Governors, Indian Council for Research on International Economic Relations) made presentations on Asia’s medium-term growth challenges at the invited ADBI session at the International Economic Association World Congress in Jordan, on 8 June.

The key issues discussed at the session included growth prospects, macroeconomic adjustment, financial sector liberalization in the People’s Republic of China, the growth outlook and the challenge of urbanization in India, the role of services as an engine of Asian growth and services sector productivity, and the role of trade policy in supply chain restructuring in Asia. The presentations are expected to be published as ADBI working papers.

Boosting Uzbekistan Agriculture

Dean Naoyuki Yoshino spoke on the need for Uzbekistan to improve agricultural financing, expand product diversification, and adopt modern agricultural technologies at a food conference in Tashkent, Uzbekistan, on 5–6 June.

Dean Naoyuki Yoshino gave a presentation on the importance of economic diversification and the adoption of modern agricultural technologies to increase Uzbekistan crop yields at the International Conference on the Most Important Reserves of Implementing the Food Program in Tashkent, Uzbekistan, on 5–6 June. More than 1,000 government officials, policy experts, researchers, and academics from around the world took part in the conference to discuss food sustainability and agricultural sector development in Uzbekistan.
Asia and Japan are in the midst of the most ambitious series of trade talks in recent history, including the Regional Comprehensive Economic Partnership (RCEP), Trans-Pacific Partnership (TPP), and China-Japan-Korea Free Trade Agreement (CJK FTA). In parallel to these regional efforts to liberalize international trade, multilateral efforts have shown some success. In December 2013 at the ninth WTO Ministerial Conference in Bali, Indonesia, WTO members agreed on a small package focusing on trade facilitation, which could provide an important push for Doha Development Round negotiations. In light of these advances in international trade policy, ADBI and the Research Institute of Economy, Trade and Industry held a panel discussion of leading trade experts at ADBI on 18 April.

Dean Naoyuki Yoshino chaired and moderated the panel discussion. The trade experts on the panel agreed that the forthcoming agreements would profoundly impact the economies of Asia. On the one hand, they would allow for a freer exchange of goods and services, thereby boosting the region’s competitiveness and economic growth. On the other hand, substantive trade opening would make certain economic adjustments necessary. Dean Yoshino recommended that governments ensure that small and medium-sized enterprises (SMEs) have access to finance so that they can fully benefit from the opportunities offered by a more open trade regime. The seminar also served as an initial brainstorming session on free trade agreements and inclusion—topics which will become key areas of ADBI research in 2014.

Trade in value-added is a key topic in the field of global value chains (GVC) and has gained wider importance in understanding the nature of cross-border trade in today’s highly integrated world. As global production becomes increasingly fragmented, tasks within the different stages of production also become more widely distributed across different countries. ADBI held a conference in Singapore on 6–8 May to improve the capacity of government officials in understanding the basic concepts of trade in value-added and global supply chains, as well as in formulating policies and strategies that enhance participation in global supply chains and achieve development objectives.

For developing countries, looking at trade in value-added is crucial to further deepen their participation in global supply chains. Because a significant part of trade in many developing countries is in intermediate goods, such an approach will help them better understand their positioning in GVC, identify the tasks in which to specialize, and promote more open markets through production sharing.

For more information on this event, please visit: www.adbi.org/event/6204.asia.japan.trading.into.future/?sectionID=27.

For more information on this event, please visit: www.adbi.org/event/6202.trade.value.added.gvc.dev.strategy/.
RMB Internationalization and the Development of an Offshore RMB Market in Hong Kong, China

The world currency reserve system is dominated by the US dollar. As the People’s Republic of China works to internationalize the RMB, a multi-polar monetary system is emerging. In the process, Hong Kong, China is playing a role as the offshore RMB business center, said Julia Fung-Yee Leung, a Fellow at Harvard University Asia Centre, in a seminar at ADBI on 14 May.

For more information on this seminar, please visit: www.adbi.org/event/6201.quah.distinguished.speaker/.

Locating Environmentally Unfriendly Facilities: The NIMBY Challenge in Asia

Locating locally unfriendly, but socially beneficial facilities, such as airports, landfills, and power stations, is a key public policy concern in many countries. However, residents in the areas where such facilities are to be established tend to exhibit not-in-my-backyard (NIMBY) opposition to such facilities. Euston Quah, head of the Department of Economics at Nanyang Technological University of Singapore, presented at ADBI on 31 March conflict-resolution instruments for the establishment of NIMBY facilities. Economic analysis, he argued, is key to resolving issues entailed in locating these environmentally unfriendly facilities.

For more information on this seminar, please visit: www.adbi.org/event/6201.quah.distinguished.speaker/.

Agricultural Policy Reforms and the Implications of Trans-Pacific Partnership for Japan

This seminar by Hiro Lee, professor of economics at Osaka University, held on 25 April, examined welfare effects and the extent of sectoral adjustments under the proposed Trans-Pacific Partnership agreement from the perspective of Japan. He presented that the results of computable general equilibrium model simulations suggest that by 2030 Japan’s welfare gain will exceed 1.5%, but output of some agricultural products will contract sharply. Moreover, if agricultural policy reforms lead to an improvement in productivity of agricultural sectors, the extent of output contraction will be reduced significantly except for dairy products. This suggests the importance of carrying out agricultural policy reforms in Japan for region-wide trade accords.

For more information on this seminar, please visit: www.adbi.org/event/6195.agricultural.policy.reforms.tpp.japan/.
Monetary Options of the ECB to Address Low Inflation

Given that inflation in the eurozone has been falling since late 2011, and has been below 1% since October 2013, this seminar by Gregory Claeys, a research fellow at Bruegel, on 23 May assessed the risk of deflation for the eurozone. He also explored the following questions. What are the drawbacks of low inflation? Could there be negative consequences for undermining the trust in the European Central Bank’s (ECB) ability to keep inflation close to 2% in the medium term? Which monetary policy tools are at the disposal of the ECB to influence inflation, in particular in the core countries of the eurozone, and what would be the effectiveness and possible side effects of the deployment of these tools?

For more information on this seminar, please visit: www.adbi.org/event/6227.monetary.options.ecb.inflation/.

Why Do Oil Importers Diversify Their Import Sources Politically? Evidence from US Firm-Level Data

At a seminar at ADBI on 19 June, Mila Kashcheeva, a research fellow at the Institute of Developing Economies, Japan External Trade Organization, presented the findings of her study on how US oil firms diversify their oil imports. Exploiting a firm-level database, Kascheeva and coauthor Kevin Tsui found that US firms import oil predominantly from countries with a political affinity to the US. While firms that trade in the spot market can adjust their imports immediately to changes in international politics, oil firms with investment overseas tend to commit to term contracts in the short run, but they are more responsive to changes in international politics in the long run.

For more information on this seminar, please visit: www.adbi.org/event/6237.oil.importers.diversify.sources/.

The Eurozone: End of Crisis or Crisis without End?

Klaus Merk, a representative of the Deutsche Bundesbank in Japan, spoke at ADBI on 18 June on how the eurozone has been defined for several years by the sovereign debt crisis. He argued that in terms of market indicators—such as the yields on government bonds—much of the severe damage to market confidence has been repaired. According to growth projections, the economic recovery in the eurozone will continue. However, it is too early to declare the crisis over. The high unemployment rates in many of the crisis-stricken countries tell a different story. There is a risk that market indicators may be running ahead of the adjustment processes, which implies a great setback potential. Ultimately, the crisis will only be solved if and when the eurozone member states put their public finances and banking systems in order, needed structural reforms are implemented, and the regulatory framework of the European Monetary Union reinforced. The process of overcoming the crisis will be more of a marathon than a sprint.

For more information on this seminar, please visit: www.adbi.org/event/6304.eurozone.crisis/.
Recent Publications

Connecting Central Asia with Economic Centers

This is the interim report of the ADBI study on Connecting Central Asia with Economic Centers. The study focuses on the five Central Asian economies: Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan. The aim of the study is to examine the pattern of economic relations between these economies and major economic centers since their transition to a market economy in the early 1990s, highlight emerging challenges, and explore policy implications. This report analyzes trade ties, foreign direct investment and financial flows, migration and remittances, and institutional cooperation between Central Asian economies and major economic centers such as Asia, the European Union, the Russian Federation, and the United States.

This is the first empirical study of Central Asian economies conducted by ADBI. Based largely on research and analysis of data, interactions with regional experts, and a technical workshop in Tokyo, it is intended as a stocktaking exercise for future ADBI research on the economic development of Central Asia.

To download a copy of this report, please visit: www.adbi.org/book/2014/04/21/6234.connecting.central.asia.economic.centers/.

Trade Policy in Asia: Higher Education and Media Services

Education and media services both provide services that embody local cultures, in which there is extensive public sector participation and significant domestic regulation. At the same time, they are dramatically affected by the information and communication technology revolution. The production of information content now involves huge costs in terms of research and development or artistic talent, while the cost of making such products available to other consumers is very low. This in turn challenges the effectiveness of domestic regulation and raises fundamental questions about its purpose, calling for an increased scope for international trade and investment, and the development of supply chains.

This book provides readers with a comprehensive and consistent treatment of policy in the higher education and media services sector across a range of Asian economies little studied in the existing literature. It gives an overview of global trends in each area, followed by detailed, country-specific studies. Through comparative work, it identifies common elements across these sectors and highlights critical implications for trade policy.

To download a copy of this book, please visit: www.adbi.org/book/2014/05/09/6259.trade.policy.asia/.

Myanmar: The New Economic Powerhouse in Southeast Asia?

After having been largely isolated from the global economy for many years, Myanmar has started to reintegrate into the international community. Market-oriented reforms have stimulated trade and boosted growth. Given its young workforce, its abundances of natural resources, and its proximity to a fast-growing dynamic economic region, the future potential for growth is expected to be large. But how can Myanmar best exploit this growth potential? What have the recent reforms achieved so far? What are the possible next steps toward further opening up to the world economy, especially in trade policy? What infrastructure is needed to connect the region to the world?

ADBI held a seminar on 24 April to present two new reports by leading international organizations that cover these key questions. A summary of the findings of the first report, a recent WTO trade policy review of Myanmar, was presented by Michael Daly, specialist in international trade and tax policies, and Maika Oshikawa, counselor, Accessions Division, WTO. The second report by ADB, entitled Myanmar: Unlocking the Potential, was presented by Cyn-Young Park (assistant chief economist and director of the Economic Analysis and Operations Support Division in the Economics Research Department of the Asian Development Bank).

For more information on this event, please visit: www.adbi.org/event/6231.myanmar.economic.powerhouse/.
A Short-Run Analysis of Exchange Rates and International Trade with an Application to Australia, New Zealand, and Japan

Authors: Jose Anson, Mauro Boffa, and Matthias Helble

The information and communication technology revolution has transformed the world into an integrated marketplace. Producers and consumers can compare the prices of local businesses and worldwide sellers. For an increasing number of tradable goods, they can take advantage of arbitrage opportunities between online and offline transactions. One of the key exogenous elements behind this arbitrage is exchange rate movements. This paper presents a new dataset that holds records on daily international exchanges of goods, namely those sent through the international postal logistics network. This paper shows that in an environment of floating exchange rates, almost instantaneous short-term international arbitrage is indeed occurring and that it has a persistent effect.


The Renminbi and Exchange Rate Regimes in East Asia

Authors: Masahiro Kawai and Victor Pontines

With the rise of the People’s Republic of China (PRC) as the world’s largest trading nation and second largest economy, its economic influence over the emerging economies in East Asia has also risen. The PRC introduced some exchange rate flexibility in July 2005, and in the wake of the global financial crisis has been pursuing a policy to internationalize the renminbi (RMB). The exchange rate policy of the PRC has significant implications for exchange rate regimes in emerging East Asia. This paper examines the behavior of the RMB exchange rate and the impact of RMB movements on those of other currencies in emerging East Asia during the period 2000–2014.

Read Working Paper 484 at www.adbi.org/working-paper/2014/05/30/6303.renminbi.exchange.rate/.

Use of National Currencies for Trade Settlement in East Asia: A Proposal

Authors: Il Houng Lee and Yung Chul Park

This paper develops a multilateral currency system where national currencies are used for trade settlement in East Asia, comprising ASEAN member countries, the People’s Republic of China, Japan, and the Republic of Korea (ASEAN+3). The currency scheme is expected to mitigate the risks associated with independent attempts at internationalization in non-convertible currency countries. It could also reduce dependence on the US dollar, safeguard against financial spillovers from outside, and deepen trade and financial integration in the region. The patterns and structure of trade and financial openness suggest that East Asia has already established an economic base upon which it could launch such a system.


Authors: Hiro Ito and Menzie Chinn

This study investigates the determinants of currency choice for trade invoicing in a cross-country context while focusing on the link between capital account liberalization and its impact on the use of the renminbi (RMB). The authors find that while countries with more developed financial markets tend to invoice less in the US dollar, countries with more open capital accounts tend to invoice in either the euro or their home currency. These results indicate that financial development and financial openness are among the keys to challenging the US dollar dominance in general, and to internationalizing the RMB for the People’s Republic of China (PRC).


Asian Monetary Integration: A Japanese Perspective

Author: Masahiro Kawai

This paper discusses Japan’s strategy for Asian monetary integration. It argues that Japan faces three major policy challenges when promoting intraregional exchange rate stability. First, there must be some convergence of exchange rate regimes in East Asia. Second, given the limited degree of the yen’s internationalization and the lack of the renminbi’s (or the prospect of its rapid) full convertibility, it is in the interest of East Asia to create a regional monetary anchor through a combination of national inflation targeting and a currency basket system. Third, if the creation of a stable regional monetary zone is desirable, the region must have a country or countries assuming a leadership role in this endeavor.


Preferentialism in Trade Relations: Challenges for the World Trade Organization

Author: Patrick Low

This paper argues that preferential trade agreements (PTAs) and the WTO are not substitutes, and while PTAs are here to stay, dispensing with a multilateral venue for doing business in trade matters is not a serious option. It is necessary to seek out better accommodation between PTAs and the WTO. The law of the General Agreement on Tariffs and Trade has fallen short in imposing discipline on discriminatory reciprocal trade agreements, and dispute settlement findings tend to reinforce weaknesses in the disciplines. One approach to a different kind of cooperation—that of soft law—holds promise to improving coherence and compatibility between the WTO and PTAs.

Read Working Paper 478 at www.adbi.org/working-paper/2014/05/07/6242.preferentialism.trade.relations.wto/.
Asian Development Bank Institute

ADBI Launches New Research Project on Financial Inclusion

In the Asian region there is growing emphasis on the need to increase financial inclusion for households and small firms to promote economic development and equality of opportunity, on the role of financial education to increase the effectiveness of such access, and on the role of regulation to contain risks that might arise from greater inclusion. As part of a new project on this theme, ADBI held a conference on 23 April to explore the links between these issues.

Dean Naoyuki Yoshino emphasized the crucial role of post office savings, financial literacy in schools, and regulating informal finance to enhance financial inclusion in developing Asia.

The conference examined the experience of financial inclusion, financial regulation, and financial education in developed and emerging Asian economies and identified best practices and policy recommendations. The conference also included cross-country empirical studies and country studies on Indonesia, Japan, Sri Lanka, and Thailand by experts from those countries as well as ADB and ADBI.

ADBI Research Fellow Yothish Jinjarak, Research Director Ganeshan Wignaraja, and Research Fellow Matthias Helble discuss ways to increase financial inclusion on 23 April.

Asia Pathways posts published

- India: Defeat of the Inclusive Growth Agenda?
- Is Finance a Binding Constraint for SME Participation in Trade in Asia?
- The new mega-regional: the TPP, RCEP and beyond
- Pacific Economies: Leveraging the Benefits of East Asian and Southeast Asian Growth
- Use of National Currencies for Trade Settlement in East Asia: A Proposal
- E-commerce in Asia Brings International Price Arbitrage Opportunities
- Development via Regional Integration – Mongolia’s Chance for a Prosperous Future
- Is Regional Economic Integration in Central Asia a Doomed Vision or a Promising Future?

View all Asia Pathways posts at www.asiapathways-adbi.org/.

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