

**Session 1A**  
**Issues in Foreign Direct Investment**



## Session 1A: Issues in Foreign Direct Investment

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### Intellectual Property Rights, Quality of Institutions, and FDI into Developing Asia

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#### **Abstract**

We explore the relationship between intellectual property rights (IPR), foreign direct investment (FDI), and the informal economy in developing Asia. We develop a theoretical model which predicts that stronger IPR protection attracts more FDI in countries with small informal economies but not in countries with large informal economies. The intuition is that the informal economy is a proxy for the quality of institutions. In institutionally strong countries, IPR protection promotes FDI by reducing illegal imitation and thus freeing up more resources for MNCs. Our empirical analysis, based on a threshold effect model, provides some evidence supportive of our model.

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## Session 1A: Issues in Foreign Direct Investment

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### The international reorganization of world auto production

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#### **Abstract**

This paper aims at assessing whether and how the entrance of new important players into the world trading system has changed the structure of the international organization of auto production. In particular, we ask (1) to what extent has the auto production really become a ‘global industry’, and (2) which is the role of different countries within each region and in the world trading system. We answer these questions by using network analysis to explore how the world trade network in automotive components changed over the last decade, and to identify the role of newly emerging countries in the global division of labor in the auto industry. Through a brokerage analysis at country level we uncover the role of countries in regional and global networks in a way that would be impossible with traditional methodologies. Our results show that the rise of a number of emerging economies caused a change in the international organization of auto production, but their roles are still largely peripheral, while the world’s leading producers now act as the core of a more hierarchical international division of labor than a decade ago.

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## Session 1A: Issues in Foreign Direct Investment

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### The Effect of FTA on FDI Inflows

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#### Abstract

During the last two decades or so, a characteristic of the world economy has changed dramatically. Two of its phenomenal changes are explosively increasing FDI (Foreign Direct Investment) flows and surging FTA (Free Trade Agreement) arrangement. Since the previous literature revealed an ambiguous effect of FTAs on FDI, this paper tries to shed the light on how bilateral FTA affects to bilateral FDI. Understanding the gravity model does not have any theoretical foundation in explaining FDI flows, this paper utilizes so-called Knowledge-Capital model. In addition, this paper includes the impact of BIT (Bilateral Investment Treaty) and the interaction of BIT and FTA on FDI inflows. The FTA-FDI relationships are sought in North-North, North-South and South-North country pairs, during the period of 1985 to 2010. The result of a panel analysis shows an extraordinarily strong positive effect of FTA on FDI inflows. The interaction of BIT and FTA has also a robust positive effect on FDI inflows.

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**Session 1B**  
**Labor and Demographic Economics**





## Session 1B: Labor and Demographic Economics

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### Parental Migration, Family Migration, and Human Capital Formation

Akira Shimada

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#### Abstract

I deal with the problem of child's human capital formation under internal migration, by taking into account that human capital is built not only by school education but also by home education, the latter being the parental care of the child. I attempt to clarify how internal migration affects child's human capital formation via home education. If home education is less effective in building human capital, parental migration is preferred to family migration and human capital is larger under parental migration even if home education is not provided. If home education is highly effective and the parent is not less altruistic towards the child, the parent chooses family migration, and human capital is larger under such migration. However, even if home education is highly effective, parental migration results in higher utility if he is less altruistic. In this case, human capital is larger under family migration; however, parental migration is chosen resulting in smaller human capital. Home education plays no role despite its effectiveness in building human capital. My results suggest that the role of home education in child's human capital formation depends on its effectiveness and the degree of the parent's altruism towards the child.

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## Session 1B: Labor and Demographic Economics

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### **Has the Japanese Labour Market Converged? Evidence from financial Market Data in the 'Lost Decades'**

**Dick Beason**

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at the Alberta School of Business, University of  
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**Vikas Mehrotra**

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#### **Abstract**

In this paper we address an issue at the interface of finance, accountancy and labour economics, specifically, whether activity that firms might undertake in order to enhance free cash flow should enhance investment, especially in R&D. From perspective of a purely financial-economic MM world, cash flow should simply be an indicator, *ceteris paribus*, of the firm's ability to raise capital and engage in investment activity, whether that activity be through capital expenditure or R&D expenditure. This issue has been widely examined in the financial literature with mixed results, in both single country and cross-country studies. Generally the finding is that there has been a small but declining investment-cash flow sensitivity in developed markets, and a larger sensitivity in developing markets (Vadilyev, 2013). One way that firms might seek to boost cash flow would be to rely less heavily on permanent employees, reducing overhead labour costs and relieving pressure on cash flow during economic downturns. The labour economics literature, on the other hand, would suggest that greater use of permanent employees would be positively related to investment in research and development. Greater reliance on permanent employees can be viewed as a shared investment in firm-specific human capital, reducing the risk that investment in research and development would be syphoned away to other firms through the naturally higher turnover of temporary employees (Becker, 1962. Hashimoto, 1981). Using data for 3145 Japanese firms from 1980-2009, we find that R&D investment is indeed negatively related to greater use of temporary employees, consistent with the firm-specific human capital view but contrary to the investment-cash flow hypothesis. For overall investment, we find a weaker negative relationship with the usage of temporary staff, also consistent with the firm-specific human capital perspective.

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## Session 1B: Labor and Demographic Economics

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### **Patterns in employment growth: A panel-data analysis of some underlying empirical regularities**

**G. K. Randolph Tan**  
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#### **Abstract**

The primary result of this is the empirical result that large and unpredictable increases in employment incur a cost in the form of poor productivity performance. The result is shown using a panel regression of average growth in labour productivity against uncertainty in manpower growth. We use the standard deviation to measure uncertainty, and obtain the same outcome for averages and standard deviations measured using three-year, five-year and ten-year spans. When we re-examine the evidence for different income groupings of economies, the results remain unchanged for low and middle-income groupings, but the evidence for the high-income economies are no longer as clear. Within the high-income economies, there also seems to be slight differences in the results for high-income OECD and high-income non-OECD economies. One possibility for the difference could be the different standards of management practice.

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**Session 1C**  
**Lessons from Korea's Economic Development**



**Session 1C: Lessons from Korea's Economic Development**

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**Korea's Economic Development: The Importance of Demand, Supply and  
Export Shocks**

**Edward M. Feasel**  
*Soka University of America, USA*

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## Session 1C: Lessons from Korea's Economic Development

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### The Concept and Forecasting of Intellectual Property Professional's Demand in Korea's Creative Economy

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University, Korea*

**Sang Don Lee**  
*KRIVET, Korea*

**Soo J. Sohn**  
*Soka University of America, USA*

#### Key findings

Contribution to the economy – Gross Value Added of Intellectual Property Professional in Korea

- The Creative Industries accounted for 2.89% of gross value added (GVA) in the Korea in 2010
- Relative to the Korea's total GVA, the Creative Industries GVA has increase by 0.07% (from 2.82% in 2009), but in absolute terms the GVA reduced by 1% from 2010
- Publishing has the largest contribution to the Korea's GVA, accounting for 0.92% in 2010

Exports of Services of Intellectual Property Professional'

- The Creative Industries accounted for 10.6% of the Korea's exports in 2010
- Publishing and TV & Radio accounted for the highest exports of services (3.1% and 2.6% of the Korea's exports respectively)

Employment of Intellectual Property Professional'

- 1.50 million people are employed in either the Creative Industries or in a creative role in another industry (5.14% of Korea employment). This is a small increase on 2010(1.44 million employed and 4.99% of Korea employment).
  - Music & Visual and Performing Arts are the largest employers in the Creative Industries with 300,000 employed in 2010 (1% of the Korea).
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**Session 1D**  
**Macroeconomics**



## Session 1D: Macroeconomics

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### **An Examination of Macroeconomic Fluctuations in Korea Exploiting a Markov Switching DSGE Approach**

**Jinho Choi**

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**Joonyoung Hur**

*Department of Economics, California State  
University–Northridge*

#### **Abstract**

We empirically assess how Korean economy has responded to structural shocks across different regimes which are identified by estimating a Markov switching dynamic stochastic general equilibrium (MS-DSGE) model. Our findings can be summarized as follows. First, our Markov switching model's fit with Korean data outperforms the fixed parameter DSGE counterpart. Second, Korean data strongly prefers the specification that allows for regime shifts in both the shock volatilities and the monetary policy rule coefficients than the other MS-DSGE models. Third, our impulse response analysis allowing for policy regime shifts lends some support to the view that Korea's monetary policy might have contributed to a sharp reduction in the level as well as the volatility of inflation in the 2000s. Fourth, our historical decomposition analysis suggests that technology shocks are the most important driver of output fluctuations in Korea.

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## Session 1D: Macroeconomics

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### **The Chonsei System and Macroeconomic Influences on Housing Prices in Korea: A VECM Analysis**

**Taly I**

*Housing and Land Research Division, KRIHS*

**David Kim**

*School of Economics (H04), University of  
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#### **Abstract**

This paper analyses the dynamic relations between macroeconomic fundamentals and housing prices in Korea. In particular, three relations are considered: the relation between the business cycle and housing markets, the relation between housing prices and chonsei (a unique rental system in Korea) prices, and finally the relation between monetary policy and housing market. To model these three relations, a six-variable vector error correction model (VECM) is estimated using quarterly data for the period 1991Q1 to 2010Q4 by deriving three cointegrating relations. Structural shocks are identified via Gonzalo and Ng's (2001) two-step procedure to separate shocks into permanent and transitory components. We find that (i) there is a tight and positive relation between the business cycle and housing market, (ii) supply side shocks are important determinants of the long-run housing prices, (iii) monetary policy affects both housing and chonsei prices via indirect as well as direct channels, and (iv) chonsei price shocks may be interpreted as persistent expectations but this would make it difficult to draw appropriate policy responses.

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## Session 1D: Macroeconomics

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### Nonhomothetic Tastes and Structural change of a Small Open Economy

**Yang Li**

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#### **Abstract**

This paper discuss the nonhomothetic tastes of consumers and the structural change using infinite horizon agent model. We find that there exists transitional dynamics in the homothetic system of the IH model in order to satisfy the transversality condition. The initial growth rate is determined by the initial endowment as well as the technological level. There are two steady-states in the homothetic system. Depending on the parameter values, one of them is stable and the other is unstable. The nonhomothetic system converges to the stable homothetic steady-state asymptotically. One of homothetic steadystates is empirically more likely to be stable. In such case, a higher initial endowment leads to a higher initial growth rate. When the initial growth rate is lower than the stable steady-state, the employment share and nominal output share of the service sector will increase at the early stages of the transition, which is consistent with Erich's stylized facts for structural changes.

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## Session 1D: Macroeconomics

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### **Korean Economy under the Attack of Chinese Hard Landing, Japanese Cheap Yen and the U.S. Tapering : GVAR Approach**

**Seung-Rok Park**  
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*Hansung University*

**Doo Yull Choi**  
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#### **Abstract**

This paper tries to investigate the impact of the current major shocks to Korean economy, i.e. hard landing of Chinese economy, cheap Yen of Japan and the tapering of the US. We employ the econometric methodology Global Vector Auto Regression (GVAR), which are developed by Dees di Mauro Pesaran and Smith (2007). Our model is composed of 6 variables (GDP, price level, equity price, exchange rate, short term interest rate, long term interest rates) of 33 countries. According to the Generalized Impulse Response functions analysis (GIRF) of the GVAR, the hard landing of Chinese economy, unlike our general perception, appears to have small impact on Korea's GDP. This result can be inferred in that Korea's export to China has small value added left in Korea, while slowdown of Chinese economy might mean more competitive edge for Korean industries, which are competing with China in most of the world markets. On the other hand, it appears to have serious effect on the economy of Malaysia and Singapore. Secondly, the cheap yen turns out to have the most harmful effect on Korea's economy, reducing GDP mostly dramatically and falling equity prices most sharply. Thirdly, the U.S. tapering shows to have only limited effect on Korean economy, with negative impact on GDP and stock market. But it turns out to have serious effect on Mexico and Argentina, reducing the GDP and plunging the currencies of both of the countries sharply. Since such shocks from major economies are estimated to have harsh effect on the Korean stock market, but they are expected to be recovered in a relatively short period time. In addition, such shocks don't seem to have significant effect on the price level and interest rate of Korean economy.

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**Session 2A**  
**Global Issues in Environment and Health**





**Session 2A: Global Issues in Environment and Health**

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**Sustainability and International Environmental Agreements**

**Yu-Hsuan Lin**  
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## Session 2A: Global Issues in Environment and Health

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### Protection of Human Health in International Trade

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#### **Abstract**

While countries have made enormous efforts to liberalize trade at the multilateral as well as regional dimension, they have been increasingly concerned about the potential harm of certain imported goods to their people's health. The legitimate concerns have led to some import-restricting sanitary and phytosanitary (SPS) measures. As a result, we have witnessed conflict between trade liberalization and protection of human health, which often resulted in trade disputes. Recognizing the increasing importance of protecting human health in international trade context, we analyze trade policy issues raised in the trade disputes concerning protection of human health with a view to exploring a useful guidance for reconciling international trade and human health. First, examining the relevant WTO rules concerning protection of human health, we analyze relevant WTO disputes. Second, we analyze some bilateral disputes concerning human health, including the disputes concerning the restriction on importation of BSE-infected U.S. beef. In particular, we discuss policy and legal issues such as the role of scientific evidence in introduction of SPS measures, the conditions for provisional measures, the precautionary principle and the genetically modified organism (GMO). Third, we analyze policies aiming protection of human health and their implications for international trade. Finally, after making trade policy recommendations, we touch upon briefly future issues

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**Session 2B**  
**Impact of Global Financial Crisis**



## Session 2B: Impact of Global Financial Crisis

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### The Impact of Financial Crisis on the Financial Asset in California Hospitals

**Jinhyung Lee**

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**Background:** During the financial crisis in 2008, US economies experienced a massive economic collapse and financial market meltdown. However, how this financial crisis affect the healthcare industry has not been well investigated.

**Aim:** this study exams the impact of financial crisis on financial asset for not-for-profit hospitals in California from 2006 to 2010

**Method:** Generalized estimating equation with normal distribution and log link function were used. Robust standard errors are calculated to address heteroskedasticity, and standard errors are adjusted to account for clustering of observations within hospitals. Also, AR (1) correlation matrix is used to control for first degree of autoregressive error

**Results:** Findings showed that financial asset was significantly affected by financial crisis. In particular, financial asset of not-for-profit hospitals reduced by approximately 15% after financial crisis.

**Conclusion:** This result confirmed that not-for-profit hospitals were suffering in investing in capital assets during the financial crisis. This finding suggests that investment strategies should change substantially during the financial crisis.

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## **Session 2B: Impact of Global Financial Crisis**

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### **Analysis of Initial Public Offering of Korean ICT Startups Before and After the Global Financial Crisis**

**Junghee Hana**

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**Almas Heshmati**

*Department of Economics, Sogang University*

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## Session 2B: Impact of Global Financial Crisis

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### Financial Safety Nets after the 2008 Global Financial Crisis: Two Issues in Korea

**Young-Jae Kim**

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**Ji-won Kim**

*Department of Economics  
Pusan National University*

#### **Abstract**

This paper specifies the financial safety nets globally and locally in order for possible prevention of the future expected financial crisis. For that purpose, we describe the features of financial stability and the relationship between real sector and nominal sector by looking at the effects of 2008 global financial crisis on Korean economy. Further, KIKO (Knock-in, Knock-out) crisis and household debt problem in Korea during the period of 2009-2010 are analyzed briefly to understand the importance of financial stability together with the current status of Korean financial stability.

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**Session 2C**  
**Foreign Direct Investment**



## Session 2C: Foreign Direct Investment

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### The Impact of Korean, US and Japanese FDI on Intra-East Asian Trade

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**K.C. FUNG**

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**ALAN SIU**

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#### **Abstract**

In this paper we first document the growing importance of intra-East Asian trade of parts and components. Our empirical analysis shows that FDI does play an important and independent role in facilitating the trade of parts and components as well as capital goods in East Asia. Although this is true for all three source countries: the United States, Japan and Korea, the magnitude of the impact of different sources of FDI in trade of parts and components is quite different. Japanese direct investment has a distinctly stronger influence on intra-East Asian trade relative to FDI from other countries.

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## Session 2C: Foreign Direct Investment

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### **An Empirical Study on the Relationship between Korea's Direct Investment in China and the Bilateral Trade**

**Hai Yue Liu**

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#### **Abstract**

This paper firstly summarizes the association between FDI and trade according to the literatures. Secondly it investigates the relationship between South Korea's (Henceforth Korea) FDI in China and China's imports and exports with Korea from the perspectives of trade volume, trade industry and trade flow. Thirdly a co-integration model between Sino-Korea imports and exports and Korea's FDI in China using yearly data from 1994 to 2012 is developed for the purpose of providing statistical support. The empirical results provide evidence that Korea's FDI has complementary relationship with both China's export and import to Korea in the long-term. Korea's technological advantage relative to China fails to explain China's exports and imports with Korea. While China's labor cost advantage and investment environment have rather strong explanatory power for China's exports and imports with Korea.

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## Session 2C: Foreign Direct Investment

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### The impact of institutional quality and financial crises on investment in East Asia

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#### Abstract

Using a pane data model, this paper studies the impact of institutional quality and the financial crises of 1997 and 2008 on fixed business investment in East Asian economies. More specifically, our explanatory variables include two different measures of institutional quality. In addition we use other variables such as real gross domestic product, real interest rate, real exchange rate, government expenditure, and trade openness as control variables. In order to capture the effects of the East Asian financial crisis of 1997 and the global financial turmoil of 2008 on investment expenditure in this region, we use dummy variable technique. This technique allows us to examine the possibility of structural breaks in investment behavior in these countries. The results show that there is positive relationship between real output and investment. The associated coefficient of dummy variable, D1998 is negative. This shows that the Asian financial crisis of 1997 had negative impact on investment behavior in East Asia. The associated coefficient of D1997ins, which captures the interaction between the Asian financial crisis of 1997-98 and institutional quality is positive and statistically significant. This means that reduction in non economic and non social risks (i.e., an improvement in political institutions) during the crisis have positive impact on investment in East Asia. However, the dummy variable D2008 that captures the US financial crisis does not affect investment in this region. This might be due the fact that these countries had undertaken certain measures to improve the quality of their economic and political institutes after the crisis of 1997-98. These improvements might have allowed them to better cope with the global financial crisis of 2008. In other words, the financial turmoil of 1997 had taught them a lesson on how to deal with new crisis in the future. Other control variables such as interest rate, real GDP, government consumption have expected signs. Our finding sheds light on the role of institutional quality in determining investment behavior in East Asia. The experience of these countries might have policy implications for policymakers and investors inside and outside East Asia.

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**Session 2D**  
**Firm and Industry Studies**





## Session 2D: Firm and Industry Studies

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### **The Mixture of Fortune and Sweats: The Success of Korean LCD Industry in East Asia**

**In-Soo Han**

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**Keun-Yeob Oh**

*Chungnam National University, Korea*

#### **Abstract**

This paper investigates the success factors of the Korean LCD industry in East Asia. These factors are described in relation to two contexts: the favorable environment surrounding the Korean LCD industry and the strategies and competencies developed by Korean companies. Success, including that of a specific firm, is usually not achieved, solely, by the efforts of a single player; it requires generally favorable conditions in the outside environment. Market conditions and rivalry among competitors are discussed as environmental factors favorable to Korean companies. Regarding the controllable strategies that Korean firms took to become top of the world's LCD industry, three (technology development, investment, and manufacturing) are explained in detail. Various competencies that enabled Korean firms to develop these strategies are also mentioned. Finally, the discussion in the paper implies that business success can depend on intuition or risk-taking as well as reasoned decision making.

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## Session 2D: Firm and Industry Studies

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### Profit Performance of Financial Holding Companies: Evidence from Taiwan

**Wan-Chun Liu**

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**Chen-Min Hsu**

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#### **Abstract**

The purpose of this paper is to examine the determinants of profit performance of financial holding companies (FHCs) by using a panel data set over the period 2001-2009. Apart from bank-specific information, we focus on the effects of the board and ownership structure. The empirical methods used are the conventional OLS and random effect of the panel data approach. Our findings show that (a) business diversification, a lower financial cost, a higher liquidity ratio, larger assets, and lower debt ratios can improve the profit performance of FHCs; (b) The director or government ownership does not statistically increase FHCs' profitability significantly, whereas the relationship between foreign ownership and FHC profitability is negative and significant; and (c) A dual-core strategy of "Banking + Insurance" has higher profit performance than the other strategies.

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## Session 2D: Firm and Industry Studies

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### Corporate Governance and Innovation under Demand Uncertainty: A Panel Study of Korean Firms

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**Minsu CHO**

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#### **Abstract**

Existing literature has identified effects of firms' ownership and management structure on managers' incentives to pursue innovation. We extend this literature by examining the role of product-market uncertainty on the relationship between firm management and ownership structure, and management turnovers versus firm innovation. In particular, we evaluate the effects of concentration of firms' ownership and management, management professionalism, presence of foreigners on boards, and management turnover rates on the count of firms' patent applications under market-demand uncertainty. The validity of alternative hypotheses about management motivation – lazy-manager, career-concerns, and East Asian institutional constraints – is evaluated under varying degrees of demand uncertainty. We use linear and tobit regressions and panel-data methods on a unique dataset for 500 Korean firms and nine years, controlling for the extent of competition, firms' history with innovation, and firm and industry characteristics. We find support for the lazy-manager hypothesis by identifying substitutability between market-competitive pressures and owner-manager separation in managers' drive to pursue innovation. Demand uncertainty attenuates the effects, implying that uncertainty affords managers some slack from the competitive pressures and monitoring by owners. Management-turnover rate also has a positive effect on innovation, less so under market uncertainty. These patterns are contrary to the predictions of the career-concerns theory. Furthermore, there is little evidence that Korean firms follow an East-Asian pattern identified in several prior studies: foreign management and family-ownership play no role in firms' trends in innovating.

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**Session 3A**  
**International Finance**



## Session 3A: International Finance

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### ‘Abenomics’, Yen Depreciation, Trade Deficit and Export Competitiveness§

**SHIMIZU Junko**

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**SATO Kiyotaka**

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#### **Abstract**

The sharp depreciation of the yen from the end of 2012 was expected to have a positive impact on the Japanese trade balance, since Japan had recorded large trade deficits since the Great East Japan Earthquake in March 2011. Trade balance tends to deteriorate at the beginning due to the J-curve effect. However, the Japanese trade balance has not shown any signs of improvement, even though one year has passed since the start of the yen depreciation. There is a growing concern that Japanese firms might lose export competitiveness in the global market. This paper empirically shows that Japanese firms expanded overseas production after the sharp appreciation of the yen from 2008 to 2012, which resulted in the increase in Japanese imports of intermediate inputs as well as finished products. The empirical result of an auto-regressive distributed lag (ARDL) model also indicates that the long-run impact of yen depreciation has weakened in recent years. In addition, Japanese manufacturing export prices in terms of the contract (invoice) currency have not changed in response to the large exchange rate fluctuations of the yen, which is empirically confirmed by the time-varying parameter estimation of the exchange rate pass-through analysis. Finally, a comparative analysis of the industry-specific exchange rate between Japan and Korea shows that the recent depreciation of the yen has improved the export price competitiveness of the Japanese manufacturing sectors.

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## Session 3A: International Finance

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### **RMB Internationalization and its implications for China-Russia Economic Cooperation**

**Denis V. Suslov**

*Economic Research Institute, Russia*

#### **Abstract**

This article highlights RMB liberalization processes and the rising demand for the use of national currencies in Russia-China bilateral trade and investment which indicates a great potential of the RMB/RUB market.

It's been several years since Russia and China started using the ruble and yuan in bilateral trade in their boarder areas and recently in all regions. Further steps are taken to build a settlement infrastructure that allows payments in domestic currencies. At the end of 2010 the ruble began to trade against the yuan in China Foreign Exchange Trade System, and Russian MICEX-RTS Group launched trading of the yuan against the ruble.

The development of yuan/ruble trade and settlements in national currencies meets the goals of Russia and China, since it provides the base for further elimination the rigid dollar peg and move to real diversification of foreign exchange. The growth of settlements in national currencies and the achievement of high liquidity of the yuan/ruble exchange market are only possible with the joint efforts by Russian and Chinese authorities, participating banks and well-doing integrated financial infrastructure of both countries. The forecasts about trade turnover (100 billion USD) between Russia and China by 2015 and the last five years average growth rate of settlements in yuan and rubles suggest high demand for yuan/ruble currency conversion from the participants of foreign trade in the future.

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## Session 3A: International Finance

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### Has the Renminbi the Potential to Become an International Reserve Currency?

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**Jia Wang**  
*Southwestern University of  
Finance and Economics,  
China*

**Xing Shu**  
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#### Abstract

With the fast advancement of economy, it is essential for China to promote the RMB as an international reserve currency in the international monetary system. For China--a sharply rising country, how to keep balance between the RMB internationalization and domestic economic development, is of great importance. Through building an international reserve currency panel data model, this paper firstly analyzes the historical development of international reserve currencies during 1980-2012 in way of empirical research, to find out what factors that determine whether a currency can become an international reserve currency are. From this perspective, this paper seeks to discover fundamental determinants of RMB internationalization. Meanwhile, the paper points out that the progress of the international reserve currency role of the RMB will depend significantly on the course of the liberalization of capital and financial account which was controlled by the authorities. Finally, this paper analyzes the current situation of development of RMB internationalization, predicting the prospect of the development of RMB as an international reserve currency in the future.

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## Session 3A: International Finance

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### The impact of global volatility on Asian financial markets

**Sang Hoon Kang**  
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**Ki-Hong, Choi**  
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#### **Abstract**

This study investigates the intertemporal relationship between global volatility (VIX) and Asian financial markets. The VIX, aka the "fear gauge," got a lot of attention during and after the financial crisis because it exploded when the markets crashed, and it tumbled as the markets rallied. In financial theory, there a positive expected return and risk relationship exists. However, many empirical studies found a negative relationship between expected returns and implied volatility in financial markets. In this context, this study investigates the relationship between the implied volatility (VIX) and Asian financial markets. We consider the impact of VIX changes on financial markets (equity and exchange rate markets). In doing it so, utilizing the VAR model, we examine the relationship between expected returns and volatility in Asian financial markets. We suppose that equity returns have a negative relationship with the VIX, but exchange rates have a positive relationship with the VIX. This evidence indicates that investors require more portfolio insurance premiums in the periods of high market turmoil.

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**Session 3B**  
**Public Finance**



## Session 3B: Public Finance

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### **Does Local Autonomy Enhance the Autonomy in Local Public Finance? : Evidence from the Case of Korea**

**Joong-Ho Kook**

*Yokohama City University, Japan*

#### **Abstract**

The mechanism that causes a soft budget constraint problem in Korea is different from that of the usual cases in which central government bailouts local governments once they issue local bonds their excessive expenditure. The share of local bonds in Korea appears to be very low. After the beginning of local autonomy in 1995, Korea has increased intergovernmental transfers such as local allocation tax and national subsidies. The share of its own revenues such as local taxes, however, did not increase. The paper tries to inquire a soft budget constraint problem in this situation of Korea. There is a particular mechanism that the carry-over not used that year includes large amounts of grants as one item of non-tax revenue. Local governments can exert pressure on central government through the use of the part of carry-over for next-periods. Even though central government tries to let local governments increase the share of their own revenues ex ante, when the local governments resisted to increase their own revenue, central government bailed out local governments ex post. This mechanism has caused a soft budget constraints problem in Korea. In order to make clear this mechanism, the paper applies Goodspeed(2002)'s model to the case of Korea and estimates significant factors on local public finance.

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## On the Distributional Impacts of Net Tax Burdens in Korea

**Sang-Ho Nam**

*Korea Institute for Health and Social Affairs, Korea*

### **Abstract**

In this paper, the net tax burden in Korea will be investigated. The net tax burden is defined as the difference between tax burdens and benefits. We analyzed the Households Income and Expenditure Dynamics Survey in 2010 compiled by the Korea National Statistics Office.

Researchers have suggested that micro-simulation model is very useful for the various ex-ante policy simulations in tax-benefit analysis. Almost all the advanced countries are said to use tax-benefit micro-simulation model to reduce possible distortions due to change in the tax rate and/or expansion of social benefits.

We first summarize taxes and benefits distribution over the income deciles. The overall average of the market income is 3.450 million won per month. The monthly market incomes for the first decile group is 0.210 million Won, 2.83 million Won for the fifth decile group, and 8.92 million Won for the tenth decile group. The burdens of income tax for the one to fourth decile groups are quite negligible, because they are either not paying any income tax or less than twenty thousand Won per month. On the contrary, the tenth income decile group pays 40 thousands Won per month as an income tax.

The distribution of the disposable income implies that the 750 thousand Won for the first decile, 1.53 million Won for the second decile, 2.92 million Won for the third decile, and 8.57 million Won for the tenth decile group.

The distribution of the in-kind benefits tells us that the first income decile receives 330 thousand Won, 290 thousand Won for the second decile, whereas 510~570 thousand Won for the fifth to tenth decile groups. This implies that the redistributive effect of the in-kind transfers is quite limited and great care must be given for the expansion of the in-kind benefits.

We also investigated the distributional impacts of the taxes and benefits. Finally, we conclude the paper by providing the directions for future research on the development of microsimulation model for the Korean economy.

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## Session 3B: Public Finance

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### Corporate Charitable Giving with Tax Deduction Ceilings: The Korean Case

**Jin Kim**

*Dongduk Women's University*

**Wonik Son**

*Korea Institute of Public Finance, Korea*

#### **Abstract**

The paper examines corporate contributions to charitable organizations, mainly focusing on the influence of the corporate income tax rate on corporations' donations. We analyze determining factors for a corporation's donation in a framework of economic theory; profit-maximization or utility-maximization. One of our contributions in theoretical concern is to analyze the relationship between the corporate income tax rate and the corporate donation in case where the company's donation is less than the deduction limit such as in Korea. And we empirically examine the determinants of corporations' donations by using a panel data of 2001-2012 periods in Korea. Based on Hausman test, we use fixed effect model of panel analysis and obtain the relevance of corporate income tax rate in determining the magnitude of corporate donations when corporate donations are less than the 5% deduction limit.

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**Session 3C**  
**Free Trade Agreement**



## Session 3C: Free Trade Agreement

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### Analysis of the Impact of TPP Between Member States

**Daejong Kim**

*Sejong University, Korea*

**Bryan Hopkins**

*Sejong University, Korea*

#### **Abstract**

Analysis of the impact of the United States and Japan in the international industry trade association analysis of impacts due to the total amount of \$ 11.3334 trillion. Looking specifically to intermediate goods traded between the two countries with a total consumption of \$ 5.437 trillion value added amount of \$ 5,8 trillion and \$ 30.1 billion international middle income margin. US-Japanese trade is largely due to the mutual benefits of trade between the U.S. and Japan that can be reported. In the middle of world trade, the trade between the United States and Japan is the largest. Due to trade between the United States and Japan, most significantly affected sectors are as follows. Sector is the largest Renting of M & Eq and Other Business Activities, Agriculture, Hunting Forestry and Fishing, Electrical and Optical Equipment, Chemicals and Chemical Products, and Financial Intermediation is. United States, Japan and South Korea would join the TPP economic effect, all three signatories to the GDP of approximately 1.7 to 2.1 percent annual increase in the degree.

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## Session 3C: Free Trade Agreement

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### **Regional Trade Agreements and the Multi-polar Global Order: Implications for South Korea's Economy**

**Mi Park**  
*Reutlingen University, Germany*

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## Session 3C: Free Trade Agreement

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### TPP, RCEP, and Japan's Agricultural Policy Reforms

**Hiro Lee**

*Osaka University, Japan*

**Ken Itakura**

*Nagoya City University, Japan*

#### **Abstract**

In this paper we compare welfare effects and the extent of sectoral adjustments under the proposed Trans-Pacific Partnership (TPP) agreement and the Regional Comprehensive Economic Partnership (RCEP) accords using a dynamic computable general equilibrium (CGE) model from the perspective of Japan. The ambitious goals of both organizations, as well as overlapping membership, make comparisons of different scenarios particularly intriguing. Another objective of this paper is to examine the effects of Japan's agricultural policy reforms on its agricultural output. If agricultural reforms, such as phasing out gentan and consolidation of agricultural land, lead to an improvement in productivity of agricultural sectors, then the extent of output contraction of agricultural and processed food sectors in Japan would be reduced significantly except for dairy products. This suggests the importance of carrying out agricultural reforms in Japan for region-wide trade accords.

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**Session 3D**  
**Monetary and Financial Economics**





## Session 3D: Monetary and Financial Economics

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### Effects of Basel III on Banks' Asset and Funding Decision

**Jong-Ku Kang**  
*Bank of Korea, Korea*

#### **Abstract**

This paper analyses banks' responses to the new banking regulation, Basel III, using a model for a representative bank's optimization. Specifically, the effects of regulations on capital ratio, liquidity coverage ratio (LCR), leverage and deposit reserve requirements are considered. In the model the bank raises funds from both short and long term debt and capital, and its assets consist of loans and safe bonds. Strengthening capital regulations or liquidity regulations tends to reduce the share of loans in bank assets, while strengthening leverage regulations or deposit reserve requirements raises its loan share. The effect of capital regulations on bank loans declines during a boom period and it is likely to be large for those banks whose costs of raising capital are high. Strengthening capital regulations increases the share of short term debt in banks' liabilities, while tightening other regulations decreases the share of short term debts. It is also found that macro-prudential regulations have a complementary relationship among themselves and macro-prudential regulations tend to weaken the effect of monetary policy on bank lending.

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## Session 3D: Monetary and Financial Economics

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### The Relationship between Corporate Social Responsibility and Corporate Financial Performance in Korea

**SeungHo Park**

*Sungkyunkwan University, Korea*

**Wankeun Oh**

*Hankuk University of Foreign Studies, Korea*

#### **Abstract**

This study examines the relationships between CSR and CFP for the period of 2004-2010 in Korea which has achieved rapid growth for the past five decades. Panel regression is conducted with financial data of 275 companies in Korea. The findings show that CSR had a positive effect on CFP in Korea, which reflects that the stakeholder theory seems valid. Second, by looking at the effects of CSR on CFP by industry, an even higher connectivity exists between CSR and CFP in some industries, such as food and beverage, and metal and nonmetal industries. Third, the examination of sub-periods divided by year 2008, so called the year of global financial crisis and green growth announced by Korean government, reveals that the effect of CSR on CFP has increased during the subsequent period than the preceding one. These results imply that companies need an active and strategic approach toward improving CSR as a sustainable factor of a company.

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## Session 3D: Monetary and Financial Economics

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### Network Entropy of Global Financial Networks

**Daeyup Lee**

*Economic Research Institute, Bank of Korea, Korea*

#### **Abstract**

This paper propose network entropy as a tool for measuring diversity of highly connected financial networks. The computation of network entropy hinges on eigenvector centrality and Shannon entropy. Two policy-related findings emerge from this research. First, regarding time variation of network entropy, international diversification of the global financial network constructed from foreign claims of international banks has retreated after the financial crisis of 2007-2008. Foreign claims among 20 reporting countries have become more concentrated on core countries such as US and UK from 2009. The change is more vividly captured by network entropy with an unprecedented drop of the measure. This finding illustrates the point that network entropy is a more acute measure for diversity of a financial network due to the inclusion of the information about financial network structures captured by eigenvector centrality. Second, on the subject of financial linkages, the results reveal sizable regional heterogeneity. In both developing Asia & Pacific area and developing Africa & Middle East area, there is negative correlation between volatility of changes in foreign claims and international diversification of funding sources measured by funding entropy. In other words, more international diversification is related with lower volatility. But especially in case of developing Europe, there is no evidence for the relation. This paper also finds interesting regional variations regarding the relation between international diversification of lending and international diversification of borrowing.

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## Session 3D: Monetary and Financial Economics

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### Dissecting Foreign Bank Lending Behavior During the 2008-2009 Crisis

**Moon Jung Choi**  
*Economic Research  
Institute, Bank of Korea,  
Korea*

**Eva Gutierrez**  
*World Bank, USA*

**Maria Soledad Martínez Peria**  
*World Bank, USA*

#### **Abstract**

This paper analyzes the lending behavior of foreign-owned banks during the recent global crisis. Using bank-level panel data for 51 countries, the paper explores the role of affiliate and parent financial characteristics, host location, as well as the impact of parent geographic origin and reach on foreign banks' credit growth. Overall, the analysis finds robust evidence that foreign banks curtailed the growth of credit relative to other banks, independent of the host region. Banks from the United States reduced loan growth less than other parent banks. Neither the global nor regional reach of parent banks influenced the lending growth of foreign affiliates. Parent capitalization and not parent funding explains the behavior of foreign bank credit growth. However, subsidiary funding does matter across domestic and foreign banks, with those relying more heavily on deposits suffering a smaller decline in bank lending. Although not the focus of the paper, we also find that government-owned banks played a countercyclical role in all regions.

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**Session 4A**  
**Energy Issues**



## Session 4A: Energy Issues

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### Strategies for Energy Security in the natural gas market in Northeast Asia

Andrey Kovsh

*Saint Petersburg State University, Russia*

#### Abstract

The global energy trade stands at the intersection of business and politics. Access to natural resources is a matter of national security affecting all vital economic, defense, infrastructural, and social systems of the state. Following the pattern of industrial development in the XXth century, which relied primarily on oil and resulted in a recurrent rush for the "black gold," the turn of the XXIst century marked the rush for "blue energy," that is natural gas. A base product for many applications across industry, transport, and consumption, natural gas has reached global relevance. Cleaner and more efficient than oil and coal, it has important advantages in terms of cost-effectiveness and environmental sustainability. However, natural gas is not substantively a more secure and reliable energy resource, despite its economic and technological qualities. The uneven distribution of the sources of natural gas globally, inflexible and cost-intensive means of delivery, and high concentrations of consumption due to geographic and population patterns create multiple asymmetric dependencies between producers and consumers. Trade in natural gas is not based on comparative advantage only. As most observers note, it lacks some of the important features of conventional markets. Natural gas often involves non-market price formation for end users. Prices for spot and long-term contracts differ widely, regional concentrations of suppliers and consumers are a source of interdependence and vulnerability and, in the absence of good relations between exporters and importers, trade in natural gas may be brought to a halt regardless of the underlying economic benefits it offers. As most international deliveries rely on pipelines, the participation of transit countries complicates the relationship between suppliers and consumers with a potential for significant political ramifications.

From the other side, geopolitical trends continue to have a significant impact on energy production, prices, and trade. Higher energy prices resulted in a resurgence of resource nationalism and the tendency to exert greater state control over indigenous energy resources. They also, in some notable cases, allowed producers to use energy resource leverage to further foreign policy and political agendas. Although sovereign nations have always exerted control over indigenous resources, the revision of legal and regulatory structures has created an atmosphere of investment uncertainty and reduced access for non-state players, except in the case of the most expensive and technically challenging of projects.

Other factors – such as the changing role of geopolitical alliances in forming energy deals; issues of poor governance and political stability; threats to facilities, infrastructure, and transit areas; environmental degradation; poverty alleviation; and energy equity issues – have emerged as elements of the changing geopolitical landscape affecting energy production, delivery, and use. As a result of these factors and volatile prices, governments are increasingly concerned about their immediate and long-term energy security.

This article examines Northeast Asian approach, strategies and prospective to energy security on the example of its natural gas imports. The question arises: Are these strategies sustainable? How can they be reconciled and pursued under a common policy? The main argument is that such conflicting sub-regional policy initiatives are amenable to progressive realignment and serve common security objectives.

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## Session 4A: Energy Issues

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### **MONGOLIA'S COKING COAL EXPORT POTENTIALS IN NORTH EAST ASIA**

**V. Enkhbold**

*Mongolian Development Strategy Institute, Mongolia*

#### **Abstract**

Worldwide coal consumption grew by 5.4% in 2011 against previous year and over 6.6 billion tons of hard coal was produced. Coal accounts for 30.3% of global energy consumption, the highest share since 1969. In 2011, North East Asian countries represented 53% of the world coal production. It once again proved that Northeast Asia region is one of the promising destinations of the world coal market. China has been shifted to be net coal importing country same as South Korea and Japan. On the contrary, Mongolia and Russia are becoming the key coal suppliers in the region. Currently, Mongolia is under railway developments to boost coal export to Northeast Asia.

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## Session 4A: Energy Issues

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### **The Impact of Foreign Investment Policy on the Stock Returns of Oil Sands Companies**

**Eugene Beaulieu**

*University of Calgary, Canada*

#### **Abstract**

On December 7, 2012 the Government of Canada released a policy statement and revised the guidelines for investments by State-Owned Enterprises in the Canadian oil sands. This policy statement was in response to the proposed purchase of Nexen by the Chinese SOE, CNOOC. According to the new guidelines, foreign investors must convince the Minister of Industry that a particular investment is likely to be of net benefit to Canada and those investments by foreign SOEs to acquire controlling interests in a Canadian oil sands company will be found to be of net benefit on an exceptional basis only. The purpose of this paper is to examine the impact of this announced policy change on the stock returns of firms operating in the oil sands. We employ an event study analysis to examine the impact of the policy change on the oil sands share price return after the announcement. We find that the announced changes to foreign investment in the oil sands significantly reduced stock returns in that industry and had a much larger negative impact on smaller oil sands companies (the juniors).

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**Session 4B**  
**Applied Economics**



**Session 4B: Applied Economics**

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**Lifetime Medical Cost of Smoking**

**Young-Ho Jung**

*The Korea Institute for Health and Social Affairs, Korea*

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## Session 4B: Applied Economics

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### **Less Parental Resources, Less Possibility to go to College? Effects of Parental Divorce and Job Loss by using Taiwan Administrative Data**

**Yenchien Chen**

*National Chi Nan University, Taiwan*

**Jin-Tan Liu**

*National Taiwan University, Taiwan*

#### **Abstract**

This paper aims to estimate parental income shocks induced by divorce and parental involuntary job loss on children's education. We employ mother fixed effects to control unobserved family background. Our strategy is allowed by an unique data which is matched by four administrative data sets in Taiwan, including birth registry, divorce registry, unemployment insurance payment records and college entrance test records. This data covers children's education outcome, information on parental divorce and job loss, parental education levels, and family background factors. We find that parental divorce has manifest adverse impact on children's outcome. However, the detrimental effect of parental involuntary job loss is only investigated for boys. In addition, we suggest that cross-sectional estimations are mostly spurious and overstate the negative effect of parental income shock.

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**ILLUMINATING THE SHADOW ECONOMY**

**Rawaa Harati**

*Universite Paris I, France*

**Morgan Hardy**

*Brown University, USA*

**Abstract**

This paper suggests a new approach to addressing an important measurement issue. Informal economic activity is known to be an important part of many countries' total economic activity, particularly in the developing world. To date, there does not exist a truly satisfying estimator or measure of the size of the informal share in total economic activity. Development of such an estimator is of extreme importance to scholars and policymakers interested in informal economic activity and its significance. This paper investigates the possibility that differences in lights predicted economic activity and government estimated economic activity can be exploited to estimate the informal share. This paper finds that the lights data approach to measurement of the informal share in economic activity is a promising new direction for future research in this area, but that more work is needed before the estimator is truly useful, particularly in the area of choosing the correct proxy for government measured economic activity. It suggests that possible next steps to be taken in this area include relaxing the strong assumption of the initial model, and creating a dataset that accounts for country-level GDP-measurement methodologies which differentially attempt to incorporate estimates of informal activity into GDP measurement.

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**Session 4C**  
**Financial Markets**



## Session 4C: Financial Markets

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### **Asian Stock Market Co-movement and Integration Issues using Panel Analysis of Nonstationarity in the Idiosyncratic and Common Components (PANIC)**

**Byung-Joo Lee**

*Department of Economics University of Notre Dame Notre Dame*

#### **Abstract**

This paper uses panel unit root test and panel cointegration test to examine whether there are common trends among Asian financial markets, and if there are common trends, are they stationary or not. Asian stock market integration is an important issue in the midst of ever increasing goods and service trades. Despite the recent progress, the degree of intra-regional financial integration appears to lag behind the increase in trades in the region. Empirical evidence shows that financial market returns among Asian countries are all stationary in itself and panel unit root tests reinforces this conclusion. Asian financial markets generally move together, and they could be integrated in a statistical point of view. China appears to be an outlier in this analysis, and its financial market is not in sync with any other Asian countries in the sample.

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## Session 4C: Financial Markets

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### Return patterns of South Korean stocks following large price Shocks

**Sascha Kolaric**

*Darmstadt University of  
Technology, Germany*

**Florian Kiesel**

*Darmstadt University of  
Technology, Germany*

**Dirk Schiereck**

*Darmstadt University of  
Technology, Germany*

#### **Abstract**

This study tests the market efficiency of the South Korean stock market by examining abnormal returns on stocks in the KOSPI 50 from 2001 to 2014 following large one month price decreases and increases. The results of the empirical analyzes show that large price shocks are likely to be followed by positive market returns. In addition, the results show an increase in the beta of stocks in the year following a large price drop. The overall results therefore support the Uncertain Information Hypothesis. However, beginning in 2008 return patterns appear to have become efficient. Therefore, subsequent to 2008 the return patterns support the Efficient Market Hypothesis. The observed returns following large price increases and decreases can be explained by changes in the US dollar South Korean Won exchange rate and the magnitude of the initial price shock. However, rating changes, do not appear to influence the observed return patterns.

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**A Portfolio Insurance Strategy for VIX Futures**

**Young Cheol Jung**

*Mount Royal University, Canada*

**Abstract**

This paper proposes a dynamic asset allocation strategy for portfolio insurance of which underlying risky asset is the Volatility Index (VIX) Futures and evaluates the effectiveness of the strategy. For this purpose, we build Option-Based Portfolio Insurance (OBPI) and Constant Proportion Portfolio Insurance (CPPI) for VIX futures. From the simulation for eight sample periods between Feb.2007 and April 2014, this paper finds that practitioners can apply the dynamic asset allocation strategy to VIX Futures. In particular, CPPI can secure the floor more tightly compared to OBPI and well capture the upside potential of the market under the highly unpredictable volatility of VIX futures.

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**Session 4D**  
**International Trade**





## Session 4D: International Trade

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### **Total country exports around the world and continents: the gravity model revisited and the role of neighbors**

**Elias Sanidas**

*Seoul National University, Korea*

#### **Abstract**

The volume of trade for any pair of countries is traditionally determined through the gravity model according to which exports primarily and directly depend on the product of GDP of the two countries (*inter alia*). In this study we want to test the hypothesis that the nations at zero distance (neighbors) to the exporting country overwhelmingly determine trade between all of them. Thus we can regard neighbors as one country and after adding their combined GDP we can multiply it with the GDP of the exporting country according to the gravity model. We then test this hypothesis with the relevant data of all nations in the world and with the data of the major regions of Europe, Asia, Africa, and Americas.

The econometric results based on panel data techniques (such as fixed and random effects as well as GMM) very clearly and robustly confirm our hypothesis that we can say with almost certainty that “tell me who your neighbors are and I will tell you how much you can export”. We further examine the residuals for each country and discuss some relevant issues. We thus see which nations are rather under performing and which ones are over performing. For example, Japan and France are under performing; whereas the USA, and Sweden are over performing. Furthermore we include regional integration variables for the European Union, the South East Asian nations (ASEAN), the North American three countries (NAFTA), and the South American countries (MERCOSUR). All these variables are also significant in explaining the total volume of exports. However their contribution to this explanation is much smaller than the primary contribution based on the GDP component as described above.

Furthermore we analyze the regions in more detail, especially Europe and Asia. Thus, we can see that Germany having the largest number of neighbors and some of the wealthiest such neighbors in Europe, it then exports a relatively larger volume than any other nation in that region of the world. On the other hand, countries like Portugal and Greece can export much less since they are more isolated and encircled by poorer neighbors. We also bring historical elements to explain the present situation in Western Europe whereby the North Central region has become the main pole of attraction. In Asia, China has many neighbors and plays a similar role to that of Germany in Western Europe; and so on. Furthermore, Asia has some unique geographical features such as the predominance of only three countries in the region. However, perhaps at a later stage, the South Asian sub-continent where India is located might also develop in an autonomous growth area. Hence, some other factors are also examined such as the role of poles of growth, according to which there are, presently, three such poles in the world: North America, North Central Europe, and East Asia.

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## Session 4D: International Trade

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### A Nonparametric Analysis of Technological Distance Effect on Bilateral Trade Flows in Asia

**Seyed Komail Tayebi**

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**Sepideh Ohadi Esfahani**

*Ph. D. Candidate, Department of Economics,  
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#### **Abstract**

Technological distance is generally considered as a barrier to trade, but it might become an incentive to imported high-tech products in order to benefit from technology spillovers, to reproduce technical knowledge at a lower cost and to shift outward the production possibility frontier in a catching up pattern (Helpman, 1987). Moreover, exporting gives countries to have access to larger markets, brings wealth, provides jobs and raises overall living standards. However, if there is a distance between countries, it is much more than geography; while it is history, culture, language, social relations and technological differences.

The purpose of this study is to investigate the impact of technological distance on bilateral trade flows between selected Asian countries by specifying a trade gravity model over 1996-2011. Despite the majority of empirical analysis, we explore the relationship between trade and technological distance through a nonparametric analysis. In this context, parametric models are fully determined up to a parameter (vector). The fitted models can easily be interpreted and estimated accurately if the underlying assumptions are correct. If, however, they are violated then parametric estimates may be inconsistent and give a misleading picture of the regression relationship. Nonparametric models avoid restrictive assumption of the functional form of the regression function. Semi-parametric models thus combine components of parametric and nonparametric models, keeping the easy interpretability of the former and retaining some of the flexibility of the latter (Hardle et al., 2004).

To specify a new form of trade gravity model, we mainly use the semi-parametric approach to explore a non-parametric relationship between bilateral exports and technological distance in selected Asian countries over the period 1996-2011. The empirical results, which can be obtained by estimating the model using advanced syntax of Stata(12), imply the role of technological distance in enhancement of bilateral trade in the region.

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## Session 4D: International Trade

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### Trade liberalization, Proximity to Frontier and quality upgrading of Exports: Evidence from China

**Jianxin Wang**

*Shanghai University of International Business and Economics, China*

#### **Abstract**

This article uses theHS6-bit encoded data of 2002, 2005, 2008 and 2011 of 29 provinces from China's customs statistics, and discusses the impact of the import tariff reduction on the quality upgrading of export products of China's provinces. And this study shows great differences from other studies in the literature of trade liberalization. This study proves that under different international Proximity to Frontier of export product quality domestically and internationally, the impact of import tariff concessions on products quality upgrading of export enterprises of various regions will go in different directions. Import tariff cuts will impact negatively the quality upgrading of export products that is far from the forefront of those types of products; in the face of reductions in tariffs on the domestic market to bring the level of competition, and those close to the international and domestic forefront of export product quality are more likely to upgrade the quality of export products. In addition, this paper studies also shows that non-market intervention may be effective in the short term, but in the long term it will bring a lot of costs, which is not conducive to export product quality upgrading in the various regions of China. The proportion of normal trade and process ingrade in a provincial trade will affect the adjustment mechanism to upgrade quality by the region in the face of opening market.

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**Session 5A**  
**Regional Economic Integration**



## Session 5A: Regional Economic Integration

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### **An update on regional production networks in East Asia: Contrasting Korea and Japan**

**Françoise Nicolas**

*French Institute of International Relations, France*

#### **Abstract**

The expansion of intra-East Asian trade over the past decades is now well documented. To explain these developments, two salient features have often been underlined in the recent literature, first the central contribution of China as a result of its economic rise, and secondly the crucial role played by trade in parts and components and the emergence of regional production networks. To be more specific, it is a well known fact that parts, components and intermediate goods account for the bulk of Korea's and Japan's exports to China, and that intra-East Asian trade is essentially intra-industry trade resulting from processing activities. Over the past few years, however, a number of developments have occurred which may bring about major changes in the way the countries are connected. Shifts in China's economic policy and the spillover effects of the global economic crisis constitute such changes. The objective of the paper is to examine the changing nature and structure of two key bilateral relations, namely, Korea – China and Japan - China trade and investment linkages, and to highlight the implications of these changes for the definition of these countries' economic policies and for their performances.

The paper starts by providing a comprehensive description of China's role in the regional supply chain and the resulting pattern of trade and FDI flows between China, Japan and Korea. The second section examines the implications this may have on their respective policy options, with a focus on trade and exchange rate policies.

The recent changes in China's Preferential Trading Arrangements with various partners such as Taiwan (with which China has already signed an Economic Comprehensive Framework Agreement (ECFA)) and Hong Kong are also examined and the implications of these arrangements for Japan and Korea are assessed. The rationale underlying the recent proposal for a China-Japan-Korea Free Trade Agreement (CJKFTA) is examined in this perspective.

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**Session 5A: Regional Economic Integration**

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**The Prospects of Economic Integration among China, South Korea, and  
Russia**

**Kar-yiu Wong**  
*University of Washington, USA*

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## Session 5A: Regional Economic Integration

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### Integrating SMEs into Global Value Chains

**Bernadine Zhang Yuhua**

*APEC, Singapore*

#### **Abstract**

With global value chains (GVCs) playing a prominent role in the international trading system, integrating SMEs into GVCs brings benefits, but also faces challenges. The analysis of GVCs in the agriculture, food processing, automobile, electronics, and handicraft sectors shows heterogeneity exists among them, in terms of value chain configuration and characteristics.

This study follows a qualitative analysis that identifies the strengths, weaknesses, opportunities and threats (SWOT) for small and medium enterprises (SMEs) in the Asia-Pacific Economic Cooperation (APEC) region to participate in the value chains of five selected sectors. Due to the features and challenges pertaining to each sector, it is hard to suggest a list of 'one size fits all' policies to facilitate the participation of SMEs in GVCs. Instead, this study suggests some policy principles and best practices to increase the chances for SMEs to play an important role in GVCs.

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**Session 5B**  
**Global Linkages in Finance and Economy**



## Session 5B: Global Linkages in Finance and Economy

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### Synchronized Cycles during the Process of Economic Transition in Asia

**Zahra Zamani**

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**Seyed Komail Tayebi**

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#### **Abstract**

Asia has witnessed deep economic changes in forms of trade and financial liberalizations and economic integration during recent decades. Such developments have been indeed the core of economic transition comprising advantages and disadvantages, which can be classified to long and short-run effects. However, the long-run effects of the changes on economic performance have not been always consistent with their short-run effects. Moreover, such changes arising from economic transition might be synchronized within process of business cycles in countries.

In the literature, there is still a debate on synchronization of business cycles. On the one hand, Krugman (1993) and Kalemlı-Ozcan, Sørensen and Yosha (2001) suggest that economic integration leads to more specialized production structures and expands trade, thus reducing the synchronization of business fluctuations. However, Coe and Helpman (1995) and Frankel & Rose (1998) argue that trade liberalization eases the diffusion of demand shocks across countries, thus causing more symmetric structural shocks together with knowledge and technological spillovers, which in turn lead to more synchronized national business cycles.

Our present work is an empirical examination of economic cycles by spectral analysis of macro-economic indicators for major Asian countries. This choice has been motivated by the characteristics of the time of economic transition, during 1990s and early 2010s. We find countries of different economic magnitudes, both from East and West Asia in order to inspect their common cyclical movements. This allows us to use spectral analysis dealing with business cycles co-movements and synchronization, and particularly focusing on the effects of synchronized cycles in bilateral trade, monetary policy and exchange rate volatilities on the real business cycles synchronizations. We have found such effects significant for both short-run and long-run periods.

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## Session 5B: Global Linkages in Finance and Economy

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### **Impact and Response of Asian Economic Crisis and Global Imbalances of Emerging Market Economies**

**Thanet Wattanakul**

*Khon Kaen University, Thailand*

#### **Abstract**

This chapter aims to examine and describe the impact and response of Asian debt crisis and global imbalances particularly of emerging market economies. It is necessary to explain the related backgrounds to address the objective. These backgrounds consist of Asian debt crisis, current global imbalances situation and importance of emerging market driven economies. The content of impact and response of Asian debt crisis and global imbalances of emerging market economies will be also discussed. Furthermore, the effective policy implementation is suggested to tackle the problems. In addition, the perforation and role of regional economic integration especially in the ASEAN region as ASEAN Economic Community (AEC) will be included. This is possible instrument to develop the economic integration level of this region to be deep economic integration as single market to decrease the global economy imbalances and accelerate mutual benefits.

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## Session 5B: Global Linkages in Finance and Economy

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### The De Facto Exchange Rate Regimes in East Asia over 2003-2013

**Jingjing Meng**

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#### **Abstract**

East Asian economies have taken a series of measures in reforming exchange rate policies since the 1997-1998 financial crisis. This paper aims to explore the evolution of the de facto exchange rate regimes in East Asia over 2003-2013 by using a seemingly unrelated regression model. My result shows that exchange rate regimes in East Asia have changed considerably and exchange rates are showing increased correlation after controlling for the role of major international currencies including the US dollar, the euro and possibly the yen. What's more, the role of the US dollar remains important especially during the recent global financial crisis.

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**Session 5C**  
**Issues in Growth and Development**



## Session 5C: Issues in Growth and Development

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### Does the Chinese Diaspora Speed Up Growth in Host Countries?

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#### **Abstract**

Using a new panel data set on overseas Chinese residing around the world, this article attempts to estimate the impact of the Chinese diaspora on economic growth in host countries. In Barro-type regressions, our findings suggest that, *ceteris paribus*, initial levels of overseas Chinese in 1970 substantially help to predict economic growth of host countries over the subsequent 40-year period. Results are confirmed when using dynamic panel data techniques for a four-decade panel from 1970 to 2010. Among the growth channels examined, overseas Chinese seem to have promoted trade openness, trade and investment relations with China, as well as educational quality.

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## Session 5C: Issues in Growth and Development

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### Disability and Poverty in a Post-Conflict Country: A Case of Cambodia

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#### Abstract

In Cambodia, one of the poorest countries in the world, land mines are an unfortunate by-product of prolonged wars and have disabled many people. This research aims to conduct an empirical analysis on the impact of mine-induced disability on poverty in Cambodia. Using data on 3,592 households from Cambodia Socio Economic Survey 2011, the study investigates how mine-induced disability affects poverty when a series of household characteristics are considered. The analysis is categorized into two: how poverty is affected when a household head has a disability; and how poverty is affected depending on disaggregated causes behind the household head's disability. Findings of the analysis on the impact of the household head's disability are as follows: First, disability aggravates poverty. Second, poverty gets worse when there is greater number of household members. Third, household head's age has a non-linear relationship with poverty. Fourth, when a household has a greater number of children under the age of fifteen, poverty worsens. Fifth, the number of the elderly aged 65 or above does not have a statistically significant impact. Sixth, when a household head marries or resides in urban area or with higher level of education, poverty improves. Seventh, ethnicity does not have a statistically significant impact. On the other hand, observation on causes of disability suggests that poverty exacerbates when a household head have mine-induced or disease-related impairments. However, congenital or accident-induced impairments do not have statistically significant impact on poverty.

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## Session 5C: Issues in Growth and Development

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### DO FREE TRADE AGREEMENTS AFFECT INCOME INEQUALITY? AN EMPIRICAL INVESTIGATION

**Jaehwa Lee**  
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**Jongsung Kim**  
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#### **Abstract**

The number of preferential trade agreements through FTAs between countries and groups of countries has greatly increased during the last two decades. Despite numerous studies on the effect of trade on income inequality since the Heckscher-Ohlin model and the Stolper-Samuelson theorem, a possible linkage between FTA and income inequality has received little attention and had not been studied thoroughly. This study examines the effect of international trade through FTA on intra-national inequality of income. The empirical linkage between FTA and income inequality measured by the Gini index is investigated by estimating a series of augmented income inequality regressions using a data set of 132 countries. Main findings from the estimation show strong evidence for the impact of FTA on income inequality. There is a strong linkage between the number of FTA notifications to WTO and income inequality. However, overall trade openness is not found to affect income inequality. The effect differs between goods notification and services notification within FTAs: the higher goods notifications bring a reduction in income inequality, while the higher services notifications raise income inequality.

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**Session 5D**  
**Open Macro Issues**





## Session 5D: Open Macro Issues

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### The Motivations of Foreign Exchange Interventions in Emerging Market Economies

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**Martin Schmitz**  
*European Central Bank, Germany*

#### **Abstract**

Emerging market economies' enormous foreign reserve holdings have triggered strong interest in the underlying motivations of their foreign exchange market operations. Our panel analysis of 26 emerging market economies over the last decade reveals two prevailing reasons for foreign exchange market operations: to mitigate the effects from volatile net capital inflows and to reduce exchange rate appreciation pressures. Countries adopting a pegged exchange rate regime tend to operate asymmetrically by purchasing foreign exchange assets in order to counter appreciation pressures. The global crisis of 2008/09 was marked by countries supporting their currencies through selling foreign exchange reserves. We find no significant role in explaining quarterly operations for traditional precautionary variables such as short-term debt or M2.

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## Session 5D: Open Macro Issues

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### Industry-Level Competitiveness, Productivity, and Effective Exchange Rates in East Asia\*

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#### **Abstract**

In this paper, we investigate export competitiveness based on unit labor costs (ULCs) and nominal effective exchange rates (NEERs) for Japan, China, and Korea for the 12 two-digit manufacturing industries for the period 2001-2009. Japan's ULCs are relatively stable or declining in most industries, while Korea's ULCs show an upward trend in many industries, with the electrical and optical equipment industry being a major exception. China's ULCs are declining in most industries. Evaluating ULCs on a foreign currencies basis, Japan's ULCs increased rapidly during the period of yen appreciation, suggesting that Japan's cost reduction efforts were more than offset by the appreciation of the yen.

The results of our empirical analysis suggest that both increases in ULCs and appreciation of the home currency reduce exports by raising the home country's relative prices. The negative impact of ULCs is largest for China, while it is negligible for Japan. However, the negative impact of NEERs is largest for Japan. Moreover, the negative impact of ULCs tends to be larger for machinery-related industries, suggesting that cost competitiveness is particularly important in these industries.

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### Post-Crisis Recovery in a Dual Exchange Rate Regime

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#### Abstract

The global financial crisis and great recession surprised and challenged both analysts and policy makers. The sluggish and protracted nature of the current recovery is no less puzzling. According to some observers, there should not have been surprise in light of substantial evidence that financial crises have characteristics that are remarkably stable over time. This paper uses an open-economy macro model with (i) an exchange-rate regime that combines both fixed and floating elements and (ii) a significant non-tradables sector to explore the complexity of current policy issues.

First, the dual exchange-rate model is better suited for analysis of the current U.S. situation, with the dollar floating freely against most currencies, while being fixed against the yuan by the Chinese authorities. The amended model is also better suited for understanding recent upheavals in the eurozone, where the euro floats freely, but where a major share of trade and financial relations occurs among member countries in a fixed-rate context.

Second, inclusion of non-tradables is important in light of the differential inflation rates between tradables and nontradables prices during the run-up to a crisis. While prices and wages in manufacturing and other tradables industries may be pinned down by competition from China, their counterparts in non-tradables remain relatively free to move. This change in relative prices is equivalent to real exchange-rate appreciation. Its effect on the cost side is to raise wages and other factor prices throughout the economy, including manufacturing. Together with competition from imports, this rise in the cost of tradables production helps to further compromise competitiveness in the manufacturing sector.

Policy makers and observers might be tempted to interpret the aforementioned rise in real property values as just another case of asset price inflation, especially if they ignore inflation in construction costs. Doing so, however, would ignore spillover effects to and other significant implications for the real economy that do not occur under inflation in financial asset prices. The Fed's actions and inactions at the time suggest that it might not have fully understood this complication.

Earlier work on the pre-crisis period (see, e.g., Arndt, KWE, 2012) has shown how intervention in the foreign exchange market by a large and important trading partner like China can compromise U.S. policy autonomy and reduce the effectiveness of its macro stabilization policies. It has shown further that in the presence of non-tradables industries, where price pressures are not "moderated" by foreign competition, the effect of monetary laxity on overall inflation may be significantly weaker than the effect in specific sectors. In the case of tradables and non-tradables, the resulting change in

relative prices amounts to appreciation of the real exchange rate. Along with price competition from imports and an undervalued currency, this pressure on costs helps undermine the competitiveness of export industries and thereby contributes further to deterioration of the current account.

The present paper extends the analysis in several directions. First, it amends the model further by formally incorporating the aforementioned spillover into the rest of the economy of wealth effects arising from the rapid increase (and subsequent collapse) in real property values. Second, it extends the analysis to the cyclical recovery in an effort to explain the long duration and extra-ordinary sluggishness of the return to economic health in the current situation. An interesting finding in this context is the high degree of symmetry between the causal linkages on the way to the financial and economic collapse and those on the way to full recovery. Third, a final section examines the extent of the model's applicability to recent turmoil in a number of nations in the eurozone.

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