

Ten Years After the Crisis

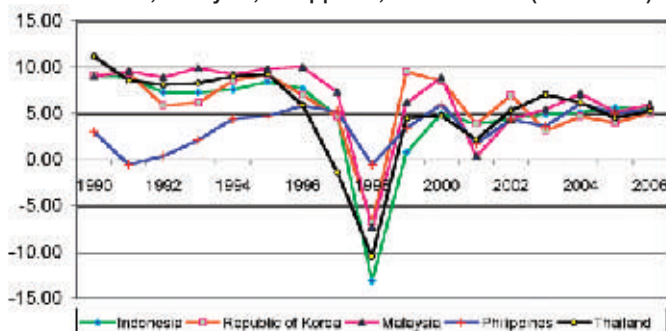
● FEATURE



Over 200 participants gathered for the 12 June conference focusing on evolving East Asian financial systems and the challenges ahead

“Ten years? Has it really been that long?” With memories of the Asian financial crisis still fresh, it can seem inconceivable that the crisis began ten years ago on 2 July 1997 in Thailand. Spreading quickly to other countries in the region—the most affected being Indonesia, the Republic of Korea, Malaysia, and the Philippines—the crisis had devastating and widespread effects, but recovery came sooner than many expected (see Chart). On the tenth anniversary of the crisis, a number of workshops and seminars, as well as a flagship study, are examining what lessons have been learned, what reforms have been undertaken, and in light of this, how susceptible the region is to another crisis. Has the region been able to turn the crisis into an opportunity to undertake financial sector restructuring, to improve the productivity of its trade and corporate sectors, and to strengthen governance and institutions?

Real GDP Growth Rates (Annual, %) in Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand (1990–2006)



Source: World Development Indicators

A joint workshop on 12 June by ADBI and the Policy Research Institute of Japan’s Ministry of Finance addressed many of these issues, focusing on the financial sector. Experts from all of the most-affected countries were present to share their views, as well as scholars from Australia, the PRC, Japan, and the US. ADBI Dean Masahiro Kawai noted that since the crisis, “Asian policymakers have begun to join forces in a more systematic way to strengthen regional economic and financial cooperation,” making progress that, “if managed effectively and properly, could fundamentally transform the Asian and world economic architecture.”

A second workshop on 29 June, jointly organized by ADBI and the Research Institute of Economy, Trade and Industry (RIETI), focused on prevention mechanisms to avoid another financial crisis.

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Masahiro Kawai, ADBI Dean and Toyoo Gyohten, President, Institute for International Monetary Affairs delivered keynote speeches. Gyohten warned that East Asia “is not aware of the risk it is running by continuing to build up huge export surpluses and foreign exchange reserves.” Participants discussed some policy measures which Asian countries can adopt individually and also collectively as a means of crisis prevention. According to Jusuf Anwar, Ambassador and former Minister of Finance of Indonesia, the main lesson all countries should learn from the crisis was a simple one: “be prudent.” Thanong Bidaya, former Minister of Finance of Thailand, reflecting on his



Toyoo Gyohten



Jusuf Anwar



Thanong Bidaya

experience of the crisis, concluded that to avoid future financial crises all countries will have to cope with globalization. “No single country can do it alone—we have to have regional cooperation,” he emphasized. A special session dealt with country experiences of the four most affected economies, as well as providing perspectives from the PRC.

ADBI is also partnering with the Office of Regional Economic Integration at ADB HQ to undertake a major study on these issues, paying particular attention to the role of economic interdependence and the regionalism that is emerging. The study, entitled “Emerging Asian Regionalism: Ten Years after the Crisis,” kicked off with an inception workshop in Manila in February. A review workshop will be held in Bangkok in July, where first drafts of chapters will be presented, and a finalization workshop is scheduled for November at ADBI. The final report will be presented at the ADB Annual Meeting in Spain in 2008. ■

Read more from the 12 June workshop at www.adbi.org/event/2233.ten.yrs.crisis/.

Read more from the 29 June workshop at www.adbi.org/event/2280.crisis.lessons.conf/.

Currency Flexibility for Economic Stability?

● DISTINGUISHED SPEAKER

Yu Yongding, Director-General of the Institute of World Economics and Politics of China, spoke on 31 May on the PRC’s macroeconomic management issues. In the second of ADBI’s Distinguished Speaker Seminars, Dr. Yu explained why although the PRC is likely to maintain a high growth rate for another decade, its economy faces serious challenges. At this moment, one of the most important threats to the PRC’s economic stability is the equity bubble: if it bursts, damage to small investors will bring serious social consequences.

Dr. Yu argued that excess liquidity is the fundamental cause of the potential instability. Policy measures for dealing with this include increasing reserve requirements, selling bonds to banks, and increasing interest rates on loans and deposits. However, he stated, the use of these



policy instruments is constrained by consideration of exchange rate stability. To solve this problem, Yu suggested revaluing the renminbi at an appropriate pace, in order to help reduce the trade surplus, provide enterprises impetus for upgrading their positions in the value chains, reduce trade friction, and share the burden of reducing excess liquidity. ■

View Yu Yongding’s presentation at

www.adbi.org/event/2252.yu.distinguished.speaker/.

Further Reading on the Asian Crisis

At Different Speeds: Recovering from the Asian Crisis

Author: Bruno Rocha

Examines the economies most affected by the Asian crisis—Indonesia, the Republic of Korea, Malaysia, and Thailand—to analyze the effect of policy complementarities on growth in the context of a post-crisis recovery.

■ www.adbi.org/discussion-paper/2007/02/06/2162.asian.crisis/

Corporate Governance of Banks in Asia, Volumes 1 and 2

Editors: Sang-Woo Nam and Chee Soon Lum

Two volumes resulting from a study on corporate governance of banks in Asia undertaken by ADBI. These include empirical results from questionnaire surveys completed by boards of directors, as well as six theme papers.

■ www.adbi.org/book/2006/09/12/1991.corporate.governance.banks.vol1/

Exchange Rate Regimes and the Asian Crisis

● DISTINGUISHED SPEAKER

W. Max Corden, Professorial Fellow at the University of Melbourne, delivered ADBI's third Distinguished Speaker Seminar.

Reflecting on the role of exchange rate regimes in the Asian financial crisis, Professor Corden shared the following conclusions:

- Although fixed-but-adjustable exchange rate regimes figured prominently in the financial crisis, they were not a major cause of the crisis. At the heart of the crisis was an investment boom fuelled by irrational exuberance. Deteriorating fundamentals resulting from this boom would have set off a crisis regardless of the exchange rate regime. Floating exchange rates could have made the adjustment less painful, and the resulting recessions less deep, however.



- For the region as a whole, unhedged foreign borrowing was an important factor in the depth and severity of the financial crisis, but it was not at the heart of the crisis. Building up significant foreign exchange reserves will only be helpful in the event of a liquidity crisis. For a solvency crisis caused by deteriorating fundamentals, more liquidity would only postpone or moderate the crisis.

With regard to a renminbi appreciation, Professor Corden emphasized that there would be gainers and losers in the PRC and the US. "The dollar would depreciate relative to the renminbi, so exporters will benefit. When interest rates rise, people who have put their money in fixed interest instruments will benefit. But others will lose. The people who will lose most of all are future American taxpayers, because US debt will go up due to higher interest rates," he explained. Finally, Professor Corden noted that shifting to a more flexible exchange rate would not make much difference, if the PRC chooses to manipulate the exchange rate through monetary and fiscal policy to maintain internal balance. ■

Read an excerpt from Max Corden's book *Too Sensational: On the Choice of Exchange Rate Regimes* at www.adbi.org/event/2232.corden.distinguished.speaker/ (with permission from MIT press). ■

ADBI Welcomes New Research Director

● ADBI PEOPLE

Mario Lamberte joined ADBI as Director for Research in June 2007. He earned his doctoral degree in economics from the University of the Philippines in 1982 and did his post-doctoral studies at Stanford in 1983–84. He brings with him long experience in research and research management, having served the Philippine Institute for Development Studies as a research fellow from 1981 to 1986, as vice-president from 1987 to 1997, and finally, as president from 1998 to March 2005. He has authored and co-authored several published research papers and has edited several books. His current areas of interest are regional economic cooperation and integration, financial markets, and development economics.

Mr. Lamberte believes that he can serve the Institute in its effort to bring its research agenda



and activities closer to ADB's mainstream work and to establish itself as a leading think tank in the region working closely with national think tanks to make its research responsive, relevant, and useful to regional and national policymakers. ■

Ageing Problem Demands Changes

WORKSHOP

A rapidly ageing population can have adverse effects on economic performance through a decrease in the labor force, and lower saving and investment rates. What will be the impact on Asian economies? How can Asian countries and the region as a whole respond to these challenges? These were some of the issues examined at an ADBI workshop on **Ageing Asia: A New Challenge for the Region** on 8 May. Speakers included Professor David Canning of Harvard, Professor Charles Horioka of Osaka University, Dr. Ralph C. Bryant of the Brookings Institution, and Dr. Masahiro Kawai, Dean of the ADBI. ADB President Haruhiko Kuroda delivered closing remarks to more than 80 participants.

A key message was the need to adopt critical reform measures before ageing takes its toll. Speakers emphasized that the ageing problem was not one of longer life spans and falling fertility rates, but of inappropriate institutions and behaviors. To prevent an “ageing crisis,” policymakers need to start refashioning their institutions and policies to influence behavior.

The workshop also underscored the importance of tackling ageing issues at the regional level, as economic interactions are expected to take place among countries that are economically integrated but ageing at different speeds. The workshop



While emphasizing the positive side of ageing—longer, healthier lives—Professor David Canning of Harvard University cautioned that “we need to change what we do as individuals and as societies, so that we can take advantage of ageing.”

described how the domestic effects of ageing could be influenced by cross-border transactions, and explored policy responses that could be taken at the regional level.

Several areas for future research were likewise highlighted, as summarized in the box below. ■

Find papers and presentations from the workshop at www.adbi.org/event/2187.ageing.asia.workshop/.

Future Research Areas to Address the Challenges of Ageing in Asia

- Determining the impact of ageing in countries with low income levels;
- Revisiting conventional assumptions and empirical data on the impact of ageing on private savings, particularly in the case of Japan, where robust corporate sector savings have prevented a decline in private savings;
- Examining the extent to which Asian countries can continue to rely on family support mechanisms in the face of falling numbers of children and increasing separation of living arrangements with urbanization;
- Improving current methodologies, particularly general equilibrium models, to analyze the economic impact of heterogeneous demographic transitions; and
- Exploring whether cross-border migration will be more important in the future, and ascertaining what kind of affect this might have on macroeconomic outcomes as well as welfare outcomes, particularly for labor-sending developing countries.

Think Tanks Put Heads Together

WORKSHOP

Senior management from 32 think tanks and research institutes across the Asia-Pacific region participated in ADBI's first event organized for its knowledge partners. The participants, representing the premier knowledge institutions from 20 of ADB member countries, spent four days in Tokyo for the **Asian Think Tanks Workshop**, strengthening their institutes' knowledge management and knowledge sharing strategies and exploring opportunities to increase synergy and achieve greater policy impact for development in Asia.

Presentations by knowledge management and knowledge sharing specialists and a series of highly interactive group sessions enabled participants to prepare prioritized action plans for their respective research institutes. A number of participants have already reported that follow-up actions are being taken by their institutes as a result of the workshop.

The workshop also provided an opportunity for senior managers from research institutes across the region to learn more about their respective research programs and to explore areas of synergy and collaboration. During the workshop it was agreed that partnerships among the research institutes, and with ADB/ADBI, need to be established and strengthened for synergy as well as to leverage policy impact to better support development in the region. In the workshop's final group session, the participants defined the pragmatic next steps and the appropriate lead agency/ies necessary to do so (see Box). ■

Next Steps for Think Tanks

During the workshop's final group session, the following steps were identified and agreed upon:

1. **ADBI** to follow up with **ADB HQ** on interest of participating Asian think tanks (ATTs) in establishing regional and sub-regional research hubs; and arrangements for establishing web-based collaborative tools to facilitate this
2. **ADBI** to consider including a series of profiles of the ATTs in its weekly web feature
3. **ADBI** to consider involving ATTs in ADBI's medium-term planning process of its research program to identify potential research synergy and possible areas for collaboration
4. **ADBI** to consider involving ATTs in the design and undertaking of ADBI's flagship studies to advantage regional expertise and existing studies, analysis, and country case studies
5. **ATTs** to follow up on concept notes prepared during the workshop—taking the lead with respect to their finalization and next steps

Read speeches and more at

www.adbi.org/event/2188.think.tanks.workshop/.



Participants from 32 think tanks and research institutes in 20 of ADB's member countries gathered for the workshop

Infrastructure Narrows the Gap to Reduce Trade Costs

● CONFERENCE

Improved infrastructure reduces commercial distribution margins, thereby narrowing the gap between producer and consumer prices, benefiting both. Moreover, infrastructure can expand the scope for domestic absorption and for supply to export markets through economies of scale. ADBI has been conducting research on the role of infrastructure in reducing trade costs, to contribute to poverty reduction as well as growth and regional cooperation.

A conference was held at ADBI in Tokyo on 25 and 26 June to discuss the preliminary findings of the study. Country case studies from the PRC, India, Indonesia, the Kyrgyz Republic, and Malaysia focused on different aspects of the context for developing trade-related infrastructure. International experts in trade cost analysis explored



Seaport development can significantly reduce trade costs and support trade expansion.

recent trends in trade patterns, composition, and transport modes. They also employed a cross-country analysis to highlight the effects of seaport development on reducing trade costs.

In this conference, researchers not only examined the impacts of hard infrastructure, such as air and sea ports, highways, and railways on reducing trade costs, but also emphasized the important role of soft infrastructure in reducing trade costs. Soft infrastructure may take the form of more efficient trade policies, procedures, and institutions, as well as deeper reforms that lead to more foreign direct investment.

This conference demonstrated that variations in tariffs and changes in transport costs resulting from infrastructure facilities have significant influences on regional trade flows in Asia. It also illustrated how the growth and improvement of infrastructure can be a cost-effective means of lowering trade costs and thereby promoting trade growth. Meanwhile, it created a platform to discuss the role that infrastructure can play in enhancing trade facilitation and regional integration. Over 60 economists and researchers participated in the conference and its lively and informative discussion.

Several areas for future research were identified and infrastructure development strategies for developing countries in Asia were highlighted, as summarized in the box below. ■

Read presentations from the conference at www.adbi.org/event/2237.infrastructure.reducing.trade.costs/.

Policy Recommendations for Infrastructure Development in Reducing Trade Costs

- Design an infrastructure investment priority strategy for each national region and each infrastructure sector;
- Improve the efficiency of both infrastructure facilities and institutions;
- Attract more FDI in infrastructure development in order to alleviate the shortage of financial resources, and utilize technology transfer brought by FDI to improve infrastructure efficiency; and
- Develop seamless multi-modal transport and seamless logistics systems.

Future Research Areas for Infrastructure's Role in Reducing Trade Costs

- Developing infrastructure investment strategies for national regions and infrastructure sectors in terms of priority and timing, in order to facilitate trade development;
- Determining the impacts of different forms of infrastructure on attracting FDI; and
- Examining the relative impacts of soft infrastructure improvements in reducing trade costs.

Selected Upcoming Events

2–5 October	<p>Strengthening Private Sector Participation and Investment in Physical Infrastructure (Tokyo)</p> <p>In accordance with ADBI's priority focus on infrastructure, this workshop explores the main challenges to strengthen PSP in infrastructure sectors across the Asia-Pacific region to accelerate economic growth and enable improved and more affordable access to infrastructure services.</p>
17–19 October	<p>Best Practices of Corporate Social Responsibility in Asia (Tokyo)</p> <p>This workshop aims to promote CSR in the Asian context by introducing a multi-stakeholder approach to enhance corporate value. Participants will explore policy options to create an environment conducive to CSR.</p>
1–2 November	<p>Ten Years After the Crisis (Tokyo)</p> <p>At this workshop, a joint study by ADBI and the Office of Regional Economic Integration at ADB HQ, entitled "Emerging Asian Regionalism: Ten Years After the Crisis," will be finalized.</p>

View all upcoming events at www.adbi.org/calendarofevents/.

Featured Publications

Currency Basket System for East Asia?

Author: Masahiro Kawai

Addressing the trend of deepening market-driven economic integration in East Asia and the resulting need for intraregional exchange rate stability across the region, ADBI Dean Masahiro Kawai suggests in this paper that East Asia's emerging economies begin with an informal coordination mechanism based on a currency basket system involving the G3 or G3-plus

currencies as a monetary policy anchor and then gradually develop a more formal arrangement.

Read Discussion Paper 68 at www.adbi.org/discussion-paper/2007/06/13/2281.exchange.rates.east.asia/.



Infrastructure and Regional Development in the PRC

Authors: Zhijun Zhao,
Toshiki Kanamori



To produce suggestions beneficial for rural development in the PRC, the authors create a theoretical model to analyze the relationship between rural development and infrastructure. This model is then used as the basis for an empirical study using pooled data from 29 provinces.

Read Discussion Paper 69 at www.adbi.org/discussion-paper/2007/06/06/2279.prc.infra.rural/.

Post-tsunami Recovery and Reconstruction in Indonesia

Authors: Suahasil Nazara,
Budy P. Resosudarmo



This paper evaluates the rehabilitation process in Aceh and Nias following the 2004 tsunami and the 2005 earthquake. The report was produced as part of an ADBI sponsored study of post-tsunami recovery and reconstruction in Indonesia, Sri Lanka, and Thailand undertaken by national research teams.

Read Discussion Paper 70 at www.adbi.org/discussionpaper/2007/06/26/2288.acehnias.reconstruction.rehabilitation/.

Microfinance Gains New Allies in Japan

SYMPOSIUM

Nearly three billion low income people lack access to basic financial services, the IMF estimated this year. ADBI, in cooperation with PlaNet Finance Japan, JICA, JBIC, the World Bank Group, and the Koei Research Institute, organized Japan's first full-day microfinance symposium on 10 May. Over 200 people participated in the **Japan Microfinance Symposium**, setting a new attendance record for ADBI's conference room.

President Haruhiko Kuroda of ADB, in his keynote speech, reiterated the Bank's commitment to supporting microfinance, noting that the sector still has a long way to go to fully meet the demand for financial services among the poor and disadvantaged. He commended the organizers of the conference for bringing the concept of microfinance to a wider audience in Japan. His speech followed opening remarks made by Wakako Hironaka, Member of the House of Councillors (upper house of the Japanese Diet), who emphasized that Japan must contribute to the goals set forth by the Microcredit Summit Campaign.

The symposium focused on the many new and innovative ways the private sector has been increasing its involvement in and support for microfinance. One featured example was the Grameen-Danone Yogurt Social Enterprise, a joint venture between the French food company Danone and the Grameen Bank, founded by Muhammad Yunus, who last year was awarded the Nobel Peace Prize for his pioneering work in microfinance. PlaNet Finance's global chairman, Jacques Attali, concluded that although Japan's involvement in



In the view of ADB President Haruhiko Kuroda (pictured here with PlaNet Finance Global Chairman Jacques Attali), "the most profound achievement [of microfinance] is the launch of an irreversible process of financial democratization."

microfinance has been limited to date, "going forward Japan's technology and human resources will be a critical factor in the next stage of the sector's development."

The participants were drawn from the private sector, government, and academia. Media interest was also very high, with ten representatives of the Japanese media covering the event. The event was featured that evening on TV Tokyo's "World Business Satellite" program, helping to inaugurate a new age for microfinance in Japan.

ADBI will offer its fourth distance learning course on microfinance in collaboration with the Tokyo Development Learning Center of the World Bank and the World Bank Institute. The course, running from August to November, aims to strengthen the institutional capacity of microfinance in the Asia Pacific region to better serve the poor. ■

Read speeches and more from the symposium at www.adbi.org/event/2185.microfinance.conference/.

Learn more about the Microfinance Training of Trainers Course at www.adbi.org/event/2240.microfinance.distance.learning.course/.

ADBI News

Publisher: Mamoru Umemoto

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