



Challenges on Asia's Horizon

● CONFERENCE



"No single country should have to bear the burden of climate-driven refugees on its own," ADB President Haruhiko Kuroda said.

At the **Challenges for the Asian Economy in 2008 and Beyond** symposium at ADBI on 8 February 2008, ADB President Haruhiko Kuroda discussed several challenges on Asia's horizon. He began with an overview on Asia's strengths and vulnerabilities in light of current global economic realities. Asia's record on economic growth and poverty reduction has been "stunning," Mr. Kuroda said, citing developing Asia's rising incomes and life expectancies and the shrinking proportion of people living in absolute poverty.

Although Asia has become a major contributor to global growth, Mr. Kuroda noted, the region's economies "are not totally immune to global market turbulence and negative developments." Asia's policymakers need to take steps to ensure confidence in the region's financial markets, he observed. While significant progress has been made since the 1997–1998 financial crisis, reforms have yet to be deepened in areas including exchange rate flexibility, effective public debt management, and continued structural reforms.

Mr. Kuroda next touched on the need for, and progress toward, regional cooperation and integration in Asia and the Pacific. ADB's experience has shown that a pragmatic, step-by-step, bottom-up approach to regionalism is appropriate. Given the diversity and size of the

region, he said, it is logical to begin cooperation at the subregional level, building outward to eventually achieve wider regional integration. ADB aims to support this regional trend toward deeper integration.

Moving on to the challenge of climate change, Mr. Kuroda warned that the Asia-Pacific region will increasingly contribute to its causes unless economic, social, and environmental patterns change. It will also disproportionately suffer the consequences of climate change. Emphasizing the need to expand the use of renewable energy sources and to make the region's economies as energy-efficient as possible, Mr. Kuroda noted the "key role" of multilateral development banks like ADB in finding ways to combat climate change. ADB's new long-term strategy to support the region's development, he said, is under discussion "with a particular focus on such key areas as inclusive growth, environmental sustainability, and regional cooperation and integration." ■

Read Mr. Kuroda's speech at www.adbi.org/event/2469.asian.economy.challenges.2008/.

In this issue

Challenges on Asia's Horizon	1
Flagship Study on Infrastructure and Regional Cooperation	2-3
Managing Capital Flows	3
Distinguished Speaker Seminars	4-7
Private Sector Roles in CAREC	8
Capital Market Reform in Asia	9
Featured Publication	10
Upcoming Events	11
Recent Discussion Papers	11
Subprime Fallout: Risks for Asia	12

Flagship Study on Infrastructure and Regional Cooperation

● FLAGSHIP STUDY

ADB I is undertaking a study on **Infrastructure and Regional Cooperation** in close collaboration with ADB headquarters. This study is the second ADB flagship study, following the Emerging Asian Regionalism study, which was completed in May.

Infrastructure plays an important role in promoting rapid economic growth in Asia and making the growth more inclusive by allowing its benefits to be shared with poorer groups and communities, particularly in remote areas and small and landlocked countries. Infrastructure can also facilitate the access of the poor to basic services and help to increase their capacity for generating income. The rapid economic growth in several major developing countries has caused huge and visible pressure on infrastructure. Lack of adequate infrastructure can hinder potential growth, weaken international competitiveness, and hamper poverty reduction efforts. Regional cooperation can play a crucial role in meeting infrastructure needs in Asia through formulating, financing, and implementing regional infrastructure projects and maintaining existing infrastructure.

The objective of this study is to examine key issues and challenges facing infrastructure and regional cooperation in Asia. The study focuses on broad and cross-cutting issues through both empirical and case studies. Examples of best practices will be drawn mainly from key sectors (sub-sectors) such as transport (roads, railways, airways, and ports) and energy (electricity and

gas). The study will examine both “software” and “hardware” issues affecting infrastructure and regional cooperation.

The study aims to serve as a definitive knowledge product primarily for policymakers in the region. It is intended to provide policymakers, concerned officials from private and public sectors, and other experts involved in Asian infrastructure with information and guidance on key issues concerning developing regional infrastructure projects through regional cooperation. It will contribute to the ongoing dialogue on regional economic cooperation in Asia. The study will attempt to outline what the region needs to address in terms of policies and best practices to meet these challenges.

The study is being undertaken in two segments and will be published in a two-volume book. The first segment is currently engaging experts to prepare around 20 discussion papers on relevant topics falling under 4 broad themes: (i) trade and logistics; (ii) policies and institutions; (iii) financing infrastructure; and (iv) transnational infrastructure networks. It will also discuss policy recommendations. The second volume of the book will be prepared based on selected discussion papers.

The inception workshop for the study at ADB I on 18–20 February 2008 brought the participation of 40 regional professionals and experts, organized a core study group for the project, and conducted brainstorming sessions. The authors of discussion



The inception workshop for the study was attended by 40 regional professionals and experts.

papers and book chapters presented their ideas for discussion in order to refine them and ensure that their research would be cohesive with the thematic components of the overall study.

Background papers highlighting the vision and goals of infrastructure and regional cooperation in Asia were also presented by regional experts. Experts from the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) spoke on Pan-Asia highways, railways, and energy networks. Sub-regional strategies for infrastructure and regional cooperation were also presented by ADB experts with focus on issues and challenges of

infrastructure in several groupings, including Central Asia Regional Economic Cooperation, the Greater Mekong Sub-region, South Asia Sub-regional Economic Cooperation, and the Pacific.

The second workshop will be conducted in two parts: one on financing infrastructure and policies and institutions to be held on 12–13 June 2009 in New Delhi and another on trade and logistics and transnational infrastructure networks on 3–4 July 2009 in Bangkok. At these events, the paper and chapter authors will present their drafts. The drafts will be improved based on comments offered by policymakers and experts from India and Thailand at the events. ■

High-Level Conference on Managing Capital Flows

CONFERENCE

A high-level conference on managing capital flows was held on 14 March 2008 as the third in a series of conferences for the project **Managing Capital Flows: Search for a Framework** under the umbrella of the ADBI-supported Asian Policy Forum. The participants included senior officials of the ministries of finance and central banks of ASEAN+3 and India, multilateral agencies, academics, and members of the research team consisting of international experts and prominent researchers from Asian think tanks.

The participants discussed the project's findings thus far, noting that despite sizeable current account surpluses, many emerging Asian economies have received significant private capital inflows (see Figure).

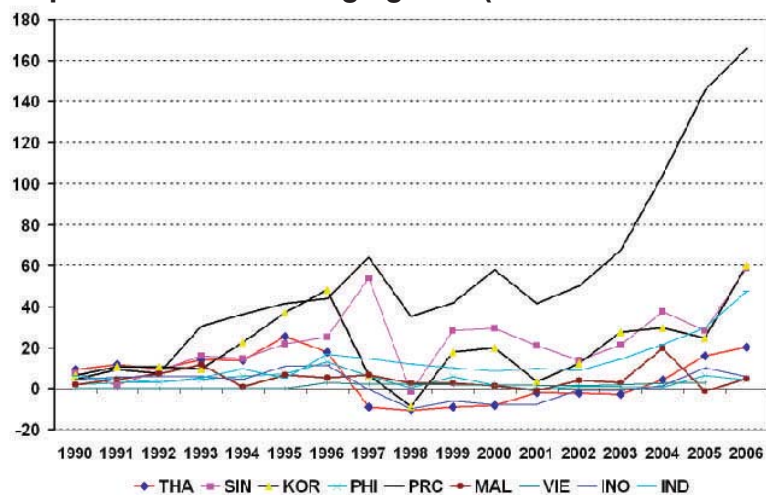
Sterilization, a tool applied by many emerging Asian economies to prevent real exchange rate appreciation and overheating, has become increasingly costly as foreign capital continues to flow into these economies. Moreover, results of country studies suggest that such foreign exchange intervention has had limited effectiveness in preventing real appreciation over the medium term, as inflation eventually picks up. An alternative policy response discussed was establishing a credible reserve-sharing arrangement at least at the regional level.

The participants also discussed other options for

managing surges in capital inflows. One was making the fiscal policy stance countercyclical to surges in capital inflows to reduce the risk of an overheating economy and the appreciation pressure on the domestic economy. Second was the use of effective measures to control capital inflows, bearing in mind the not-so-successful experience of Thai control introduced in December 2006. Another option could be organizing collective action at the regional level that can increase the options available to individual countries. An example is regional exchange rate coordination, where collective appreciation would spread the adjustment costs across Asia. ■

Download papers from the project for free at www.adbi.org/research.managing.capital.flows.papers/.

Capital Inflows in Emerging Asia (in billion US dollars)



Note: THA=Thailand, SIN=Singapore, KOR=Republic of Korea, PRC=People's Republic of China, MAL=Malaysia, VIE=Viet Nam, INO=Indonesia, IND=India
Sources: Balance of Payments Statistics (International Monetary Fund), World Development Indicators (World Bank).

Global Governance Reform: The Imperatives of a New Global Economic Reality

DISTINGUISHED SPEAKER

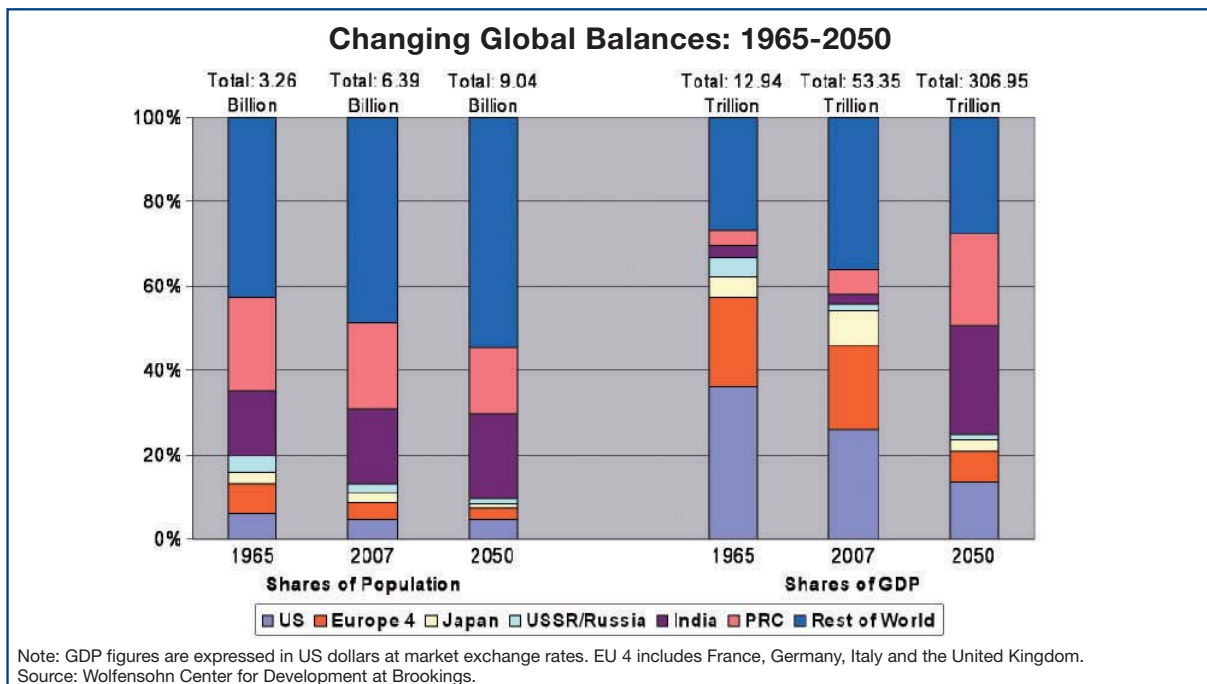


Mr. Linn introduced the G20 as an alternative summit model.

Johannes F. Linn, formerly World Bank Vice President for Europe and Central Asia and currently Senior Fellow, Global Economy and Development, Executive Director, Wolfensohn Center for Development at The Brookings Institution, discussed global governance reform issues with a focus on the imperatives of a new global economic reality on 5 March 2008. He started his lecture by noting three major points. First, the world now faces dramatic shifts in global power distribution and pressing global challenges. Second, international institutions established after World War II are fragile and lack legitimacy in responding to these challenges. Third, far-reaching reforms based on a new set of values are necessary for creating architecture of legitimate global institutions that will be representative, relevant, and effective.

The emergence of key dynamic economies, resurgence of Asia, and integration of the Eurasian super-continent are bringing about significant changes in national demographic and economic balances in the 21st century. By 2050, the People’s Republic of China (PRC) and India will probably be the largest economies in the world, followed by the United States (see Figure). The rapid growth of trade and capital flows, energy security, global warming, and threats of epidemics are calling for increasing global cooperation, which in turn require global institutions that can address these global changes effectively.

Existing global institutions such as the United Nations (UN), UN agencies, international financial institutions, and summits are fragmented, unrepresentative, ineffective, and outdated. There is a stalemate on many issues, including the Doha trade round, global financial imbalances, global warming, and epidemics, and on reform of individual agencies dedicated to addressing those global issues. One example is the G8 Summit, which despite five non-member countries (Brazil, PRC, India, Mexico, and South Africa) being permanently associated under the “Heligendamm Process,” is insufficient to push the global reform agenda. To solve this problem by creating an effective “global apex forum,” Mr. Linn introduced an alternative summit model, the G20. This group of 20 countries, which currently meets at the



finance minister level, has developed into a representative and effective forum that will be geographically and culturally diverse and broadly representative of global population distribution, economic weights, and geography.

Finally, Mr. Linn introduced a new set of “global values” for better global governance, which is important to make the shift from the old order global

values—which focus on nation-states and national power politics and promote singular economic models and political values—to new order global values that focus on global society and new multilateralism and accept the coexistence of diverse models of market economy and political systems. ■

Read a more detailed summary of Mr. Linn’s lecture at www.adbi.org/event/2493.linn.distinguished.speaker/.

East Asia’s Adjustments to Global Imbalances and Subprime Loan Crisis

Yung Chul Park, Research Professor and Director of the Center for International Trade and Finance at Seoul National University’s Graduate School of International Studies, discussed East Asia’s adjustments to global imbalances and the subprime crisis on 13 March 2008.

Professor Park cited Roubini’s estimate of the losses related to the subprime loan crisis incurred by financial institutions, which amounted to US\$3 trillion. Despite East Asia’s relatively low exposure to mortgage-backed structured products he said, spreads have widened in many East Asian emerging economies. Capital inflows into Indonesia, Malaysia, Philippines, Thailand, and Association of Southeast Asian Countries (together making up ASEAN 4) and four Asian newly industrialized economies (Hong Kong, China; Republic of Korea; Singapore; and Taipei, China) have fallen off recently.

Professor Park offered the following scenarios for East Asia: adjustment through inflation, large currency appreciation and domestic demand expansion, and the decoupling of East Asia from global business cycles. He addressed the

DISTINGUISHED SPEAKER

importance of an ASEAN+3 free trade agreement, financial market opening and deregulation of cross-border investments in East Asia, and a cooperative framework for improving macro-prudential regulation of financial institutions and markets. He concluded that the objectives of the Asian Bond Markets Initiative (ABMI) need to be redirected toward creating regional financial centers catering to financial services needs of Asian investors and savers. ■



Professor Park suggested redirecting ABMI toward creating regional financial centers.

Read a more detailed summary of Professor Park’s lecture at www.adbi.org/event/2495.park.distinguished.speaker/.

Challenges to Fiscal Decentralization

DISTINGUISHED SPEAKER

Vito Tanzi, former State Undersecretary for Economy and Finance, Ministry of Economy and Finance, Italy and former Director, Fiscal Affairs Department, International Monetary Fund, delivered a seminar on the future of fiscal federalism on 20 February 2008. Focusing on the creation of supranational institutions to manage externalities associated with the globalization of economic activities, Mr. Tanzi argued that responsibilities and powers are being progressively

shifted upward from national governments to international or global institutions.

Mr. Tanzi noted that in the period following World War II, national governments faced increasing pressure to maintain economic stability and to provide their citizens with essential public services. The size of the government grew rapidly, as did its power and economic role.

The central government’s growing size and rising share of public spending in the GDP,



Mr. Tanzi argued that international/global institutions are gaining responsibilities over economic activities.

Mr. Tanzi argued, resulted in economic inefficiency. Economic growth in many countries faltered and privatization and fiscal decentralization followed. In particular, the growing private sector reduced the public provision of goods and services and became more involved in production and distribution in general. This process sped up in the 1990s and thereafter through public-private partnerships, and the role of the private sector further deepened.

Due to the recent trend of globalization of trade, investment, and financial activities, the economic activities within a nation state now have an international scope; they can produce adverse consequences at the international and/or global level. Mr. Tanzi discussed several issues ranging from global climate change to exchange rate management that required collective action at the international level. The provision of public goods at the international level is therefore a necessity. He argued that the progressive, de facto creation of supranational or global institutions could be a choice in many instances. He also discussed organizational and financial aspects of international institutions, highlighting their potential benefits for nation states. Mr. Tanzi argued that in the future, the world will have more global institutions and more important roles for municipal governments. ■

Read a more detailed summary of Mr. Tanzi's lecture at www.adbi.org/event/2465.tanzi.distinguished.speaker/.

The European Union, the Euro Revolution, and Asia: The Asian Economy and Asian Money

● DISTINGUISHED SPEAKER

Manoranjan Dutta, Professor of Economics, Rutgers University, discussed lessons from the European Union for sustaining Asia's growth momentum and the European Union's paradigm of unity in diversity. In his 28 February 2008 presentation, Professor Dutta stated that although no individual country can deliver the best for its citizens, the European Union can deliver more for its citizens and can help its members compete in the world market. As of 2006, the share of the European Union's 27 member countries in the world GDP accounted for almost 30 percent, which was higher than the share of the United States. More importantly, the income gap among the member countries had narrowed during the period 1971–2006.

Turning to Asia, Professor Dutta noted that the Asian financial crisis of 1997–1998 prompted the "Asianization of Asia," as countries in the region searched for a coordinated fiscal and monetary policy response to the crisis. Professor Dutta takes the view that Asia-Pacific Economic Cooperation (APEC) has delayed the Asianization movement in that it failed to deliver the result of greater intra-APEC free trade. He concluded that Asian economic cooperation is in progress and that nothing can stop it. Problems will crop up along



Professor Dutta predicted that the problems of Asian economic cooperation can be solved as was done in Europe.

the way, he said, but they can be solved as was done in Europe.

Professor Dutta argued that the Asian economic integration will draw upon the now famous 4 plus 10 model, comprising People's Republic of China, India, Japan, and Republic of Korea, plus the 10 members of the Association of Southeast Asian Nations (ASEAN). He also stated that Bangladesh; Bhutan; Nepal; Maldives; Mongolia; Pakistan; Sri Lanka; and Taipei, China belong to the regional map of Asia and that following the principle of inclusion, they will make an Asian economy with Asian money. Australia, New Zealand, and the Pacific Islands will have a choice of their own. ■

Read a more detailed summary of Professor Dutta's lecture at www.adbi.org/event/2482.dutta.distinguished.speaker/.

The European Monetary Union After (Almost) 10 Years: How Does It Work? What Are the Challenges?

Klaus Regling, Director General of Economic and Financial Affairs of the European Commission, presented a paper that addressed the history, achievements, and future challenges of the euro on 7 February 2008. The launch of the euro, said Mr. Regling, was an unprecedented step in the history of international monetary and economic cooperation. The European Monetary Union's (EMU's) initial goals of macroeconomic stability, growth and job expansion, and economic cohesion and convergence have all been met. The challenges, which were known from the beginning, are related to the EMU's unique policy set-up: a centralized, single monetary policy combined with decentralized fiscal and structural policies. Consequently, certain institutional features were introduced, including stability-oriented economic policies (convergence criteria), strengthened fiscal discipline (stability and growth pact), and a framework for comprehensive structural reforms (Lisbon agenda). Mr. Regling reported that a number of challenges remain because Europe is

DISTINGUISHED SPEAKER



Mr. Regling argued for euro area economies to have more coherent representation in international bodies.

facing today a radically different environment than it did a decade ago. In response to these challenges, Mr. Regling focused on the need for euro area economies to become more knowledge-based, which would boost productivity; to enhance the intra-EMU adjustment mechanisms; to strengthen public finances; and to become more actively engaged on the world stage through a more coherent representation in international institutions and fora. ■

View Mr. Regling's presentation and read a more detailed summary of his lecture at www.adbi.org/event/2470.regling.distinguished.speaker/.

Integration Strategies for ASEAN: Alone, Together, or Together with Neighbors?

DISTINGUISHED SPEAKER



Professor Plummer presented results suggesting that ASEAN+3 is the best option for financial integration.

Michael G. Plummer, Professor of International Economics at Johns Hopkins University, SAIS-Bologna; Senior Fellow, East-West Center; Editor-in-Chief of the *Journal of Asian Economics*; and Director, American Committee for Asian Economic Studies, shared his views on regional integration strategies for ASEAN on 19 March 2008.

Professor Plummer pointed out that the Association of Southeast Asian Nations (ASEAN) has committed itself to creating an ASEAN Economic Community by 2015, which is envisioned as having a free flow of goods, services, capital, and

skilled labor. Another aspect of regionalism in ASEAN relates to the numerous bilateral free trade agreements that have already been concluded. The results of his empirical study find support for the current course of bilateralism. Still, it should also be open to wider forms of cooperation in the Asia-Pacific. For ASEAN as a whole, an alliance with Japan, the People's Republic of China, and the Republic of Korea (ASEAN+3) appears to be the best option for financial integration. He argued that from a practical point of view, ASEAN+3 is the more likely grouping for a monetary union in the long-run, a statement that was supported by the results of his empirical analysis.

Professor Plummer concluded optimistically, stating that despite the long road to policy harmonization among ASEAN member countries, moving ahead with it and maintaining political relations and goodwill are important for Asia's integration. ■

Read a more detailed summary of Professor Plummer's lecture at www.adbi.org/event/2505.plummer.distinguished.speaker/.

Strengthening Private Sector Participation and Investment in Physical Infrastructure for CAREC

SEMINAR

Over 30 senior officials and members of the Central Asia Regional Economic Cooperation (CAREC) trade and infrastructure sector coordinating committees participated in an ADBI seminar on **Private Sector Participation and Investment in Physical Infrastructure for CAREC** in Tokyo, 5–7 March 2008. ADBI organized the seminar in coordination with ADB headquarters, and with the collaboration of the European Bank for Reconstruction and Development, the Islamic Development Bank, the World Bank, and a number of private sector organizations representing investor interests.

Masahiro Kawai, Dean of ADBI, in his opening address, highlighted the dynamic transformation and remarkable economic growth experienced by the CAREC region over the last two decades. He emphasized that infrastructure development and the policy reform efforts now underway by many countries in the CAREC region, particularly those to improve governance and encourage private sector development and investment, will be important drivers for sustaining this strong economic performance in the medium to long term.

Sean O’Sullivan, Deputy Director General of ADB’s Central West Asia Department, welcomed the CAREC delegates and underlined the importance of connectivity for the CAREC region. He highlighted the need to further accelerate infrastructure development across the region to improve connectivity, expand trade and access to markets, and support broader economic growth. Mr. O’Sullivan pointed out the important role for the private sector to support infrastructure development in CAREC. In addition to recognizing the potential private sector financing offers to expand investment currently sourced by CAREC country governments, Mr. O’Sullivan placed significant emphasis on the extensive infrastructure management expertise and

access to new technology the private sector offers to the CAREC region.

Takehiro Hashimoto, Division Director, Macquarie Japan, the seminar’s keynote speaker, underlined the enormous interest of the private sector in global infrastructure investments as demonstrated by the huge increase in the number of infrastructure investment funds worldwide. Drawing on Macquarie’s extensive infrastructure experience in Asia and worldwide, Mr. Hashimoto provided a “private sector investor’s” perspective of the main challenges to accelerating the public–private partnership process and the development of a “bankable” pipeline of projects for the CAREC region.

The seminar aimed to enhance the understanding of participating senior policymakers of the benefits and main challenges to achieving greater PPPs for infrastructure development across the CAREC region. The participants reviewed the links between infrastructure development and economic growth and poverty reduction, and assessed the infrastructure financing challenges faced by the CAREC region. They focused on the opportunities and advantages PPPs offer, the modalities that have evolved, and the key policy issues that need to be addressed by governments in the region for projects to be “bankable.” They also reviewed energy and transport case studies to determine those points of project design or negotiation that enabled the deal to be successfully concluded or resulted in a breakdown of the deal process. Each of the eight CAREC country delegations, through facilitated group sessions, was able to identify those priority policy issues that need to be profiled in their respective countries to strengthen the PPP enabling environment and better enable a pipeline of bankable infrastructure projects to be developed for the CAREC region. ■

View speeches and seminar materials at www.adbi.org/event/2485.infrastructure.carec/.



Over 30 CAREC delegates participated in the seminar.

Capital Market Reform in Asia: Ninth Roundtable

● ROUND TABLE

ADB and the Organisation for Economic Co-operation and Development (OECD) held their ninth roundtable on capital market reform in Asia, entitled **Ten Years after the Financial Crisis: Prospects towards the Future**, on 26–27 February 2008 at ADB. The series started in 1999 as a forum for discussion on issues related to capital market reform in Asia. The opening remarks were given by Masahiro Kawai (Dean, ADB), Adrian Blundell-Wignall (Deputy Director, Directorate for Financial and Enterprise Affairs, OECD), and Andrew Sheng (Chief Adviser, China Banking Regulatory Commission). About 60 participants representing capital market authorities, ministries of finance, central banks and monetary authorities, and the private sector from selected OECD and East Asian countries participated.

The participants discussed the recent development of Asian capital markets, best practices in capital market regulation and corporate governance, progress of regional initiatives for capital market development and integration, the roles of capital markets in supporting public–private partnerships in infrastructure investment, and the challenges of mitigating financial market turbulence.

Significant progress has been made on capital market reforms, including adoption of international standards and market practices, adoption of national capital market master plans, and the streamlining of regulatory infrastructure to enhance surveillance and enforcement.

Bond markets in emerging East Asia have

advanced significantly with total local currency bonds outstanding expanding from US\$400 billion in 1997 to US\$3 trillion at end-June 2007. During the same period, the share of corporate bonds rose from 28% to 41% of total local currency bonds. East Asian equity markets also expanded substantially with their market capitalization increasing from about US\$840 billion in 1997 to US\$4.7 trillion in 2006 with initial public offerings reaching US\$66 billion in 2006. Capital market development has also benefited from regional initiatives such as the (ASEAN+3) Asian Bond Markets Initiative and the Interlinked ASEAN Security Market Initiative.

Infrastructure investment needs for Asia and the Pacific were estimated at US\$228–600 billion a year, with a financing gap of US\$180–200 billion. With limited fiscal space, filling this financing gap would require an increase in private sector investment through public–private partnerships. Capital market can support public–private partnerships by facilitating access to financing by private sector investors, including through infrastructure funds.

Despite significant advances in financial and capital market development, the United States subprime crisis highlighted the remaining need for (i) better understanding and monitoring of the risks involved in the securitization process, (ii) greater transparency and disclosure, (iii) better risk assessment/management by financial institutions, and (iv) closer coordination among policymakers. ■

Interns Contribute and Learn

Three student interns from the FASID-GRIPS* Joint Masters Degree Program in International Development Studies completed internships at ADBI in February 2008.

When asked what she had learned at ADBI that she plans to apply in her future work, Intern Natalie Victorino said, “The workshops on private–public partnerships in physical infrastructure were highly related to my work in the Ministry of Finance of the Philippine government on monitoring and instilling financial discipline among the government corporations, which are the major providers of public goods, mainly physical infrastructure. Discussions on the current public–private partnership issues such as regional experiences and innovative approaches were particularly useful for me.” Intern Sathia Non valued the opportunity to learn how an international

organization works, especially “the exposure to research and heated discussions between economists and researchers about economic issues.” Intern Vuthy Chea said of her hands-on research work at ADBI that she enjoyed “facing directly the challenges of different stakeholders in the development field.”

(* GRIPS = National Graduate Institute for Policy Studies; FASID = Foundation for Advanced Studies on International Development



Director of Administration, Management, and Coordination Mamoru Umemoto (second from right) with interns Sathia Non, Vuthy Chea, and Natalie Victorino (left to right).

Organic Crops or Energy Crops? Options for Rural Development in Cambodia and the Lao People's Democratic Republic

FEATURED PUBLICATION

More than two billion people in the world depend on agriculture for their livelihood. In Asia, where poverty is largely a rural phenomenon, governments are in a constant search for effective strategies to develop agriculture. Two important recent developments have emerged: organic crops and energy crops (biofuels). Because both developments are taking place largely in marginal areas where the majority of the poor reside, poverty and environmental implications from these two activities appear to be significant. A recent discussion paper by Anil Markandya and Sununtar Setboonsarng, titled “Organic Crops or Energy Crops? Options for Rural Development in Cambodia and the Lao People’s Democratic Republic,” examines the prospects of the two strategies.

Pros and Cons of Organic Agriculture

The growth of organic agriculture has been driven by increased concerns regarding food safety and the negative environmental consequences of high external input agriculture. The organic agriculture sector has been growing rapidly in recent years (see Figure).

Besides price premiums, organic agriculture offers advantages including improved soil fertility, enhanced biodiversity, improved health from the absence of chemical pesticides, and reduced greenhouse gas emissions, and can even reduce atmospheric carbon by absorbing carbon and keeping it in the soil.

Although critics of organic agriculture worry that it could lead to lower yields, recent research showed that in marginal areas, organic practice led to increased yields.

Pros and Cons of Biofuel

The growth of biofuel has been driven by increased energy demands and concerns over climate change. Proponents of biofuels argue that they can replace gasoline and diesel, generate rural employment, provide energy security, and reduce greenhouse gas emissions.

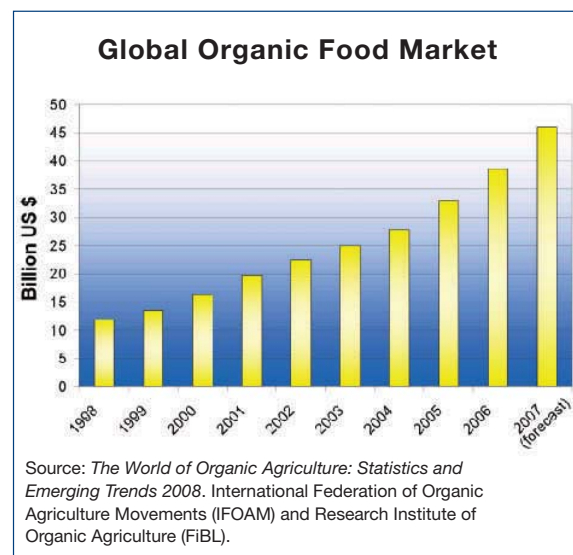
A major concern is that energy crops compete for the land available for food production, thus hiking up food prices. Intensive agriculture and deforestation to produce more energy crops would

also be harmful. In addition, the ability of biofuels to reduce greenhouse gas emissions is unclear.

Development Implications

Assessment of the poverty impacts of organic rice and energy crops such as jatropha and cassava revealed that both types of crops would lead to income improvement for poor farmers. Since the areas in which the two are grown do not overlap, both could be simultaneously promoted in marginal areas although much research is still required for energy crops. Promoting organic farming of rice would lead to more significant poverty reduction than promoting energy crops. In addition, promoting energy crops under smallholder programs could have higher poverty impact than under concessionaire programs.

Since the present agricultural environment in both countries studied is generally regarded as “clean” with a low level of chemical inputs, producing safe food for a high-value market may be better than intensifying agriculture through conventional methods and attempting to compete with more developed countries. Assistance from external organizations will be critical for the successful expansion of either organic agriculture or biofuels. ■



Download Discussion Paper 101 for free at
www.adbi.org/discussion-paper/2008/04/11/2523.organic.crops.energy.crops/

Selected Upcoming Events

12-13 June	<p>Infrastructure and Regional Cooperation Flagship Study: 2nd Workshop (Part A) on Policies and Institutions and Financing Infrastructure (New Delhi)</p> <p>This technical workshop will focus on the theme of policies and institutions and the theme of financing infrastructure.</p>
17-18 June	<p>LAEBA 2008 Conference: Trade Costs and Regional Cooperation (Lima)</p> <p>This conference will provide interregional comparative studies on regional cooperation and trade costs in Latin America and Asia.</p>
3-4 July	<p>Infrastructure and Regional Cooperation Flagship Study: 2nd Workshop (Part B) on Transnational Infrastructure Networks and Trade and Logistics (Bangkok)</p> <p>This technical workshop will focus on the theme of transnational infrastructure networks and the theme of trade and logistics.</p>
17-19 July	<p>Asian Noodle Bowl Conference (Tokyo)</p> <p>This conference will feature discussions among experts and policymakers on designing an East Asian free trade agreement and presentations on the latest country and firm-level information on current agreements.</p>
July-October	<p>5th Microfinance Training of Trainers (Tokyo and Selected Developing Member Countries)</p> <p>This blended distance learning course aims to enhance the knowledge of microfinance practitioners and strengthen the capacity of microfinance institutions in Asia and the Pacific.</p>

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

Recent Discussion Papers

Macroeconomic Management Amid Ethnic Diversity: Fifty Years of Malaysian Experience

Authors: Jayant Menon



This paper examines the role that macroeconomic policy management has played in the Malaysian development experience. Macroeconomic policy has not only been about economic stabilization, but also about addressing income disparities along racial lines in order to preserve social harmony.

Read Discussion Paper 102 at www.adbi.org/discussion-paper/2008/04/02/2517.macroeconomic.management.malaysia/.

Managing Capital Flows: Experiences from Central and Eastern Europe

Authors: Jürgen von Hagen, Iulia Siedschlag



This paper discusses the experience of Central and Eastern European countries with capital account liberalization and coping with large capital inflows. Policy implications for emerging Asian economies are drawn out of the analysis.

Read Discussion Paper 103 at www.adbi.org/discussion-paper/2008/04/18/2527.managing.capital.flows.europe/.

Microfinance and the Millennium Development Goals in Pakistan: Impact Assessment using Propensity Score Matching

Authors: Sununtar Setboonsarng, Ziyodullo Parpiev

Revisiting the data from a 2005 survey of clients of a microfinance bank, this study found that despite the Khushhali Bank's strict poverty-targeting program used in client selection and despite the survey's design to address the selectivity bias, the selectivity bias still existed in the sampled households.



Read Discussion Paper 104 at www.adbi.org/discussion-paper/2008/04/18/2526.microfinance.millennium.dev.goals.pakistan/.

United States Subprime Fallout: Risks for Asia

While East Asia is “better prepared to adjust to economic downturns in the United States and other industrialized countries, the region faces three key risks,” ADBI Dean Masahiro Kawai explained in his keynote speech at the NEAT Conference on East Asian Financial Cooperation on 12 April 2008. To prepare for such risks, East Asian economies need to strengthen regional financial cooperation.

1. ***Risk of a sharper and more protracted global slowdown.*** This could be driven by a deeper and more prolonged recession or slowdown in the United States than expected. The negative international spillovers from such a downturn could dampen growth prospects in many industrialized countries—including Europe and Japan. From there, the impacts

could cascade to emerging East Asian economies.

2. ***Risk of a continued rise in oil and food prices.*** With precarious supply conditions and inventory rundowns, further oil price increases remain a possibility. The recent hike in the price of rice, the main staple of the region, also raised anxiety across East Asia, highlighting the urgent need to address medium- to long-term food security. With oil, food, and other commodity prices at record highs, any further increases in costs could trigger persistent price inflation that can generate a wage-price spiral.

3. ***Risk of a surge in short-term capital inflows.*** This could cause upward pressure on the value of regional currencies. Several countries

including Thailand and Viet Nam had been experiencing excessive capital inflows until the US subprime crisis broke out. As the US financial system restores its stability and the credit crunch eases, capital inflows to East Asia may resume and in a massive way. These inflows will generate significant appreciation pressure on East Asian currencies. If not managed properly, this can cause macroeconomic and financial-sector instability. ■



A continued rise in commodity and energy prices could threaten macroeconomic stability throughout Asia and the Pacific.

Read Mr. Kawai's speech at www.adbi.org/speeches/2008/04/12/2525.us.subprime.fallout.east.asia.economy/.

ADBI News

Publisher: Mamoru Umemoto

ADBI News reports quarterly on the activities of the Asian Development Bank Institute. The views expressed in this newsletter do not necessarily reflect the views or policies of the Asian Development Bank Institute or the Asian Development Bank. Materials may be reprinted with credit given to *ADBI News*. To send **comments** or to request a **free subscription**, e-mail adbinews@adbi.org; fax a message to +81-3-3593-5571; or write to *ADBI News*, Kasumigaseki Building 8F, 3-2-5, Kasumigaseki, Chiyoda-ku, Tokyo 100-6008, Japan. For the **web version**, go to www.adbi.org/newsletter/.

ADBI Online

- To read *ADBI News* online, go to www.adbi.org/newsletter/
- For **information**, send an e-mail to info@adbi.org or go to www.adbi.org
- For **publications**, go to www.adbi.org/publications/
- To read daily **development-related news and analysis**, go to www.adbi.org/enewline.cover. Sign up to receive **E-Newsline daily**.
- Register for **free e-mail alerts** when new material is posted on our website. www.adbi.org/email.notification/register.php