



## DIRECTOR'S MESSAGE

Albert Park



In fall 2014 HKUST IEMS had a busy schedule of events which engaged emerging market issues across the globe. In addition to several events focused on China, including a workshop on minimum wages in China and Hong Kong, the Institute organized events on Latin America (lecture on Mexico's structural reforms by the Vice Governor of Mexico's Central Bank), Russia and Europe (talk on economic implications of the Ukrainian crisis for Ukraine, Russia, and Europe), Africa (conference on China's impact on African workers), India (seminar on microfinance programs in India), and East Asia (hosting a conference of Asia's top labor

economists). We also cosponsored a major conference which brought together leading international experts to discuss the frontiers of innovation research in an event titled "Globalization of Knowledge Creation and Innovation in the Context of Emerging Economies".

The Institute also made great strides in strengthening its capacity to share its research results and communicate to a broad global audience. It began publication of HKUST IEMS Thought Leadership Briefs to make research by Faculty Associates more accessible and highlight their policy relevance. The Institute also launched a new website and new social media channels on Facebook, Twitter, YouTube, Google+, Weibo, and WeChat in September. Please follow us on these different platforms (see back of this newsletter for QR codes) and share them with colleagues and friends to expand our information network!

## AS GOES RUSSIA, SO GOES EUROPE?

HKUST IEMS and LAPP – EY Hong Kong Emerging Market Insights Series (2014.11.03)

Since early 2014, the unstable geopolitical situation in Ukraine and Russia has led to a butterfly effect of implications for the global economy. **Christopher Hartwell**—a leading scholar on Russian affairs and the President of the Center for Social and Economic Research in Warsaw, Poland—expounded on both the history behind and future implications of Russia's recent forays into Ukrainian affairs. It was the first talk in a new Emerging Market Insights Series co-sponsored by EY Hong Kong and the HKUST Leadership and Public Policy Executive Education Program.

"To save Ukraine in the long term, anything less than dramatic, 'big bang' institutional reform is bound to fail," stated Dr. Hartwell. As an example, Dr. Hartwell pointed to Ukraine's kafkaesque trade and customs departments, both mired in corruption and heavy-handed red tape which hamper Ukraine's cross-border trading.

Dr. Hartwell stated that, for a Eurozone still struggling with its own issues—ranging from sovereign debt crises and high government budget deficits to wide-spread youth unemployment in southern Europe—anything that increases instability or necessitates greater defense spending would be a major blow to struggling EU economies. Even in the best case scenario where the Russia and Ukraine conflict blows over, the EU's projected growth rate is anemic, with an estimated 1.5% growth rate for 2014 and 2.0% for 2015. However, far and away the largest potential implication of Russia's aggression for Europe is energy. Europe is still highly dependent on Russian natural gas imports and, at least in the short term, Europe has few alternatives but to import from Russia.

Regarding the topic of a trade war between Russia and the US/Eurozone, Dr. Hartwell confided, "Russia will win...Russia has a lot of experience in this area. [The current US/Eurozone] targeted sanctions are hitting the Russian elite, and can be worked around. Ordinary Russians have a long history



Angeline Yee (HKUST LAPP), Christopher Hartwell, Albert Park, Agnes Chan (EY Hong Kong)

of bearing economic hardships, and seem to support Vladimir Putin's actions."

With respect to implications for Asia, Dr. Hartwell was more optimistic. "Surprisingly, Asia may benefit from the turmoil in the West. Russia is now looking East instead of West, which may divert trade away from Europe and become an opportunity for Chinese investors and manufacturers." Dr. Hartwell conceded that, pre-conflict, Russia had already pushed the idea of Eurasian integration, but sanctions have accelerated this move. That said, Dr. Hartwell argued that there may not be much additional benefit to be gained from closer integration between China and Russia, as there is relatively little overlap between the two economies. And China also loses from a weak European recovery and global economic instability. For these reasons, Russia's invasion has been an unmitigated negative for all countries involved.

Watch the video recording of the presentation and view event photos at <http://iems.ust.hk/xd7y>





## WORKSHOP ON MINIMUM WAGES AND EMPLOYMENT IN CHINA, HONG KONG, AND THE WORLD (2014.09.12)

Minimum wage regulation has generated heated discussions in the public and academic communities. To better inform policy discussions in mainland China and Hong Kong, HKUST IEMS held a one-day workshop with leading researchers and experts to share their most recent research findings and discuss the policy implications.

The opening session featured three keynote speeches. **David Neumark** from the University of California-Irvine, one of the world's leading authorities on minimum wage policies, began the workshop with a talk on "Policy Levers to Increase Jobs and Income from Work after the Great Recession". Examining policies implemented in the U.S. after the Great Recession to increase jobs and incomes, Prof. Neumark examined the labor market and welfare impacts of different policy levers, including minimum wages, hiring credits, and the earned income tax credit (EITC). He took a strong stand on the negative employment effects of minimum wage—especially among young adults and less-skilled workers—pointing out the targeting inefficiency of minimum wages in reducing poverty. Hiring credits and the EITC, however, were found to be useful instruments in achieving job creation and poverty reduction. According to his research, hiring credits were found to be effective, at least during economic downturns, when the policy specifically targeted the unemployed and was implemented with low administrative costs. EITC also has proven to be effective in increasing employment and raising family incomes as it avoids job loss and does a good job targeting low-income families.

**John Addison** from the University of South Carolina presented his research "On the Robustness of Minimum Wage Effects: Geographically-disparate Trends and Job Growth Equations". He addressed methodological concerns about estimating impacts of changes in the minimum wage in different regions when such changes are associated with spatial differences in the underlying growth prospects for low-wage employment. Controlling directly for this factor, he found insignificant minimum wage effects on employment in the U.S. bar-and-restaurant sector.

**Shi Li** from Beijing Normal University provided an overview of minimum wage regulations in China in his presentation "Understanding Impacts of Minimum Wage Policy on Labor Market in China". He argued that the mixed findings from the recent literature on the labor market impacts of minimum wages in China may be attributable to the slow increase in minimum wages and the loose implementation of minimum wage policy prior to 2004. Using new enterprise-employee matched data collected in 2009 and 2011, he found evidence of a significant positive impact of minimum wages on wage growth and a negative impact on firm profits.

The afternoon session concentrated on the employment effects of minimum wages in China. The studies presented at the workshop found significant disemployment effects of minimum wage increases. **Carl Lin** from Beijing Normal University analyzed urban household survey data and county-level data on minimum wages from 2004 and 2009, and found the overall employment

elasticity to be negative for young adults but with geographical heterogeneity. The disemployment effects were most prominent in Eastern and Central China, with little significance in the less-developed West. **Gewei Wang** from The Chinese University of Hong Kong presented similar results using firm-level data from 2005-2007. Adopting a "neighbor-pairs" approach comparing employment changes in adjacent regions with different changes in the minimum wage, he estimated the employment elasticity to be -0.103, and found that the strengthened enforcement of minimum wages in 2004 amplified the negative effect.

As in many other developing countries, policy compliance has always been a key challenge. **Lingxiang Ye** of Nanjing University of Finance and Economics tackled this issue by analyzing the matched firm-employee dataset, with results showing broad minimum wage compliance in China after 2004 in the sense that very few full-time workers earned less than the monthly minimum wage. However, the study also found substantial violations of overtime pay regulations. Moreover, firms most likely to violate overtime pay laws are disproportionately export-oriented, domestically-owned private sector firms, firms with owners from Hong Kong, Taiwan, and Macao, and firms located in Guangdong and Shanxi provinces.

**Siu Fai Leung**, Professor of Economics at HKUST and a member of Hong Kong's Minimum Wage Commission, provided an informative update on minimum wage regulations in Hong Kong, and **Albert Park**, Director of HKUST IEMS, provided an update on the situation in other major emerging markets.

The highlight of the workshop featured a panel session on policy lessons from research on minimum wages. **Wing Suen** from the University of Hong Kong expressed his opinions on minimum wage research and its connection to policy making. He pointed out that there are many issues neglected by academic research which are of great concern to policy makers. As a reference wage, increases in minimum wages may push up the wages of higher-income occupations, and thereby lead to distributional changes at all wage levels. It might also result in labor force reallocation, especially in the low-end service sector, if the law affects some occupations more than others. Minimum wage increases can also lead to higher prices for goods and services produced by low-wage workers which can increase living costs for poor and rich alike. Both Prof. Neumark and Prof. Addison agreed that minimum wage compliance is an important issue and needed to be accounted for in empirical research. Above all, policy makers should think about who should be affected and who will be affected by minimum wage policy adjustments, and ensure that such policies are well-targeted.

Video recordings of the presentations and the related papers are available at <http://iems.ust.hk/714>





Albert Park



Carl Lin



Haroon Bhorat



Uma Rani



Ximena del Carpio

## GOOGLE HANGOUT ON MINIMUM WAGES AS AN INSTRUMENT TO REDUCE INEQUALITY IN EMERGING MARKETS (2014.11.18)

**Albert Park**, Director of HKUST IEMS, moderated this online discussion about the effectiveness of minimum wage policies in reducing inequality in developing countries and emerging markets. He began by noting that much has been written about the impact of minimum wage legislation in developed countries, but to date there is relatively little evidence on their impacts in less advanced countries. The goal of the discussion was to shed new light on the subject by talking with leading international experts who understand how minimum wage policies have been implemented in different parts of the world. The four distinguished panelists were **Carl Lin**, Assistant Professor of Economics at Beijing Normal University; **Haroon Bhorat**, Director of the Development Policy Research Unit (DPRU) at the University of Cape Town; **Ximena del Carpio**, Senior Economist at the World Bank; and **Uma Rani**, Senior Development Economist at the International Labour Organization in Geneva.

The first part of the discussion focused on how minimum wages are set in different countries. Prof. Lin explained that China's minimum wage policy only began in 1994, with a major strengthening of the regulations in 2004 mandating that minimum wages be updated every two years, with local, city, and even county governments having the authority to set minimum wage levels covering all workers in their jurisdiction. As introduced by Prof. Bhorat, in South Africa, collective bargaining plays a major role in minimum wage setting, with different minimum wages set for different industries, regions, and even firms of different sizes. India was one of the first Asian countries to set a minimum wage, in 1948. According to Dr. Rani, committees at the state and national level with representatives of different stakeholders make recommendations on minimum wage levels based on economic conditions and the needs of workers. There are over 1000 minimum wages that vary by location, education, skill level, industry, etc., making the system very complicated.

Ximena del Carpio, World Bank Senior Economist, discussed the advantages and disadvantages of having different minimum wages based on sector or region. She noted that although it is appealing to tailor minimum wages to specific groups of workers or specific situations, a major disadvantage of having multiple minimum wages for different types of jobs is that it creates an uneven playing field that can give workers distorted incentives to shift across sectors, occupations, or regions. Dr. del Carpio also pointed out that when collective bargaining is involved, the minimum wage level can become highly politicized. Governments may avoid such politicization by putting in place minimum-wage setting procedures that anchor the minimum wage to objective data on labor market conditions.

The panelists then discussed problems of enforcement of minimum wage regulations. Unlike in advanced countries, in many developing countries, especially those with large informal sectors such as India, compliance with minimum wage regulations leaves much room for improvement. If enforcement is uneven across different firm types, then this too can create an

uneven playing field and drive more workers to less regulated, informal sectors. Dr. Rani outlined four main factors in creating an effective minimum wage policy. The first question she asks is simply, "Who does it cover?" If a minimum wage only applies to a part of the population then it can actually be more difficult to enforce. Secondly, "How complex is the system?" The more complex a system, the more challenging enforcement can be for government officials. It is for these reasons that Brazil's system has a high level of compliance; the system is simple and applies to everyone. The reasonability of the minimum wage level is also an important factor, as compliance improves if the minimum wage is set at a lower level. Finally, the impact of unions as in Brazil or civil society in India or even the awareness campaigns of Costa Rica all help the government to encourage compliance. Prof. Bhorat added that larger firms and those closer to city centers are more likely to comply. Government investment in enforcement and advertising campaigns also can have a large impact.

Finally, the panelists discussed the available evidence on the impacts of minimum wages on employment, wages, and inequality. Prof. Lin reported that his research found that minimum wages in China reduced employment for younger workers, women, and those with less education, but also raised wages and reduced inequality. According to Prof. Bhorat's research on South Africa, minimum wages had a negative employment effect in agriculture, but not on other sectors.

One concern of minimum wage policy is that workers will be forced to move from the formal, regulated sector to the informal sector, putting downward pressure on wages in the informal sector. However, Dr. del Carpio pointed out that in a number of countries, it has been found that minimum wages actually increase informal wages through a "lighthouse effect" in which the minimum wage becomes a reference wage demanded by workers in the informal sector as well.

Although they came from different countries and academic backgrounds, the panelists all agreed that understanding the impact of minimum wages on inequality is much more complicated than it seems. While minimum wages raise wages for employed workers at the bottom of the wage distribution, there can also be negative employment effects as well as unintended groups affected by such policies, such as low-wage workers who may not necessarily belong to poor households. More study is required. As Dr. del Carpio noted towards the end of the conversation, the minimum wage by itself cannot be expected to end inequality, but rather just one of the many tools countries use to that end.

Watch the recorded Hangout at <http://iems.ust.hk/bgu2>



## CONFERENCE ON GLOBALIZATION OF KNOWLEDGE CREATION AND INNOVATION IN THE CONTEXT OF EMERGING ECONOMIES

(2014.12.04-07)

**Justin Yifu Lin**, former Chief Economist of the World Bank and current Honorary Dean of Peking University's National School for Development, delivered the keynote address at the Inaugural *Management and Organization Review (MOR)* Research Frontiers Conference, which invited leading scholars working on innovation in emerging markets to discuss the key research questions and most promising research directions for the future. The event was hosted by HKUST's Department of Management and co-sponsored by HKUST IEMS. Organization of the conference was led by **Arie Lewin** (Duke University), Editor of *MOR*, and included **Albert Park**, Director of HKUST IEMS, and **J.T. Li, Jiing-Lih (Larry) Farh, Sam Garg, Yaping Gong, and Bilian Sullivan**, all faculty in the HKUST Department of Management. It included 7 sessions on a wide range of topics with a focus on prospects for innovation in China, while drawing lessons from the experience of other emerging markets and developing countries, as well as developed countries.

Prof. Lin's keynote address was on "New Structural Economics: The Third Wave of Development Thinking". He explained that the first wave of development thinking after WWII took a structuralist approach, emphasizing market failures and the need to build up modern industry by direct government interventions and import substitution. The second wave of development thinking was neoliberalism, which emphasized government failures and proposed to build up well-functioning market institutions even if it required shock therapy (today often known as the "Washington

Consensus"). Unfortunately, these prescriptions failed to help most developing countries move ahead. The only regions which managed to move from low income to middle income to high income status were Korea and Taiwan. One lesson from their successful experience, as well as those of Japan and more recently China, is that although markets served as the basic institution for resource allocation, in these successful cases governments played a critical facilitation role for structural change by making forward-looking investments in sectors consistent with each country or region's dynamic comparative advantage.



Justin Yifu Lin

As countries move up the product ladder and produce more sophisticated goods and services, individual firms in new sectors may not internalize all of the positive economic benefits for the country as a whole when making investment and innovation decisions, justifying government action to work with firms to eliminate key barriers faced by firms in rising sectors. A lively question and answer session followed Prof. Lin's talk, in which some participants questioned the extent to which governments have the ability to know which promising sectors to support.

Learn more about the event at <http://iems.ust.hk/00ez>



## FINANCING SMALLHOLDER AGRICULTURE: AN EXPERIMENT WITH AGENT-INTERMEDIATED MICROLOANS IN INDIA

HKUST IEMS Academic Seminar (2014.12.08)

**Sujata Visaria**, IEMS Faculty Associate and Assistant Professor of Economics, presented a seminar proposing a better way to offer loans to small-scale agricultural entrepreneurs in emerging markets—and, in particular, to small-scale, impoverished Indian farmers.

Recently, researchers have found that in a number of countries in different parts of the world, the traditional microcredit model (based on Grameen Bank in Bangladesh founded by Nobel Prize winner Muhammed Yunus) featuring small individual loans to self-selected groups of borrowers with weekly repayment and joint liability has failed to promote entrepreneurship and risk-taking, or increase borrower incomes, and thus may not be an effective way to lift the poor from poverty. Prof. Visaria pointed out that even in situations where traditional microcredit may appear to be a good fit, this is not necessarily the case for agricultural entrepreneurs. Agriculture is a high-risk business that does not see immediate returns, making it difficult for farmers to make weekly loan payments until after the harvest. Another reason for a low microcredit success rate amongst agricultural workers is that such workers are required to hold each other accountable for loan repayment. This type of social pressure can be too much for many impoverished farmers, and has even led some Indian farmers, unable to face the shame of defaulting, to commit suicide.

Prof. Visaria and her team proposed a solution to the problem of traditional microcredit in agriculture: Trader-Agent Intermediated Lending Scheme (TRAIL), which allows a local agent (often a moneylender or trader) to recommend borrowers who may qualify for loans specifically geared toward poor farmers, with commissions paid to the recommender upon successful loan repayment. Rather than requiring loan repayment within the first week, repayments for TRAIL loans are made in lump-

sum payments every four months to better match crop cycles and with no joint liability. This design takes advantage of local agent information on the credit-worthiness of potential borrowers, avoids high costs of weekly repayment meetings, and does not require close monitoring by bank officers, all of which are components of traditional microloan schemes. Because the TRAIL payment scheme is more relaxed, lenders have little incentive to aggressively pursue repayment until many months later during the harvest season. Perhaps the most innovative aspect of this lending scheme is its built-in crop insurance, which prevents farmers from defaulting due to acts of nature that would otherwise make loan payment a near impossibility. Upon analyzing the results from field trials in India, Prof. Visaria concluded that the TRAIL scheme was more cost-effective, imposed lower costs on borrowers, and had higher repayment rates compared to alternative microfinance schemes. Moreover, TRAIL loans significantly increased agricultural incomes from high-risk, high-value cash crops.

According to Prof. Visaria, the promise of microcredit has yet to be fulfilled. Her TRAIL approach may be a better alternative financing method for agricultural entrepreneurs who are in a position to benefit from greater credit access.



The video recording of the seminar as well as the related Thought Leadership Brief authored by Prof. Visaria are available at <http://iems.ust.hk/aeey>



## VICE GOVERNOR OF BANK OF MEXICO DISCUSSES STRUCTURAL CHALLENGES FOR THE MEXICAN ECONOMY

(2014.11.14)

From 1981 to 2013, per capita GDP growth in Mexico averaged less than 1%—a shockingly low growth rate when compared to other emerging market economies such as China and India. The Vice Governor of the Mexican Central Bank, **Manuel Sánchez González**, spoke at length on the modern history of the Mexican economy, and addressed what he thought was the most crucial issue plaguing Mexico's anemic GDP growth, namely: stagnant productivity growth.

During his presentation, Dr. Sánchez discussed how the Mexican economy suffers from inefficiencies in multiple market sectors, mainly as a result of poorly functioning institutions, deficient infrastructure, burdensome regulations, and lack of competition. He then illustrated the inefficiencies in certain key sectors such as energy and telecommunications—sectors which the government had previously monopolized—and discussed Mexico's current structural reform agenda aimed at reducing these inefficiencies, especially by opening key sectors to greater competition.

Dr. Sánchez is optimistic that the overall Mexican economy will continue to grow by 4% in 2015 and 2016, due in part to recently implemented economic reforms, and also because of the upswing in the American economy, Mexico's largest trading partner.



Thomas Wong (Invest-HK), Héctor Martínez Elizondo (ProMexico Hong Kong), Albert Park, Manuel Sánchez González, Alicia Buenrostro Massieu (Consul General of Mexico in Hong Kong and Macau), Germán Muñoz (Mexican Chamber of Commerce in Hong Kong)

Dr. Sánchez also described the Mexican Central Bank's position on fiscal and monetary policy for the coming few years, and reaffirmed that, while the current inflation rate in Mexico is now over 4%, the Mexican Central Bank has adopted a long-term target rate of 3%, a target which the Bank is expected to aggressively pursue in 2015 to better shield the economy from financial volatility.



Transcript available at  
<http://iems.ust.hk/9v17>



## CHINA'S IMPACT ON AFRICAN EMPLOYMENT: WHAT DO WE KNOW AND WHERE ARE THE GAPS? (2014.11.21-22)

HKUST IEMS co-organized a conference with the Development Policy Research Unit (DPRU) of the University of Cape Town to discuss how China's economic engagement in Africa is affecting African workers. The event, supported by a network-building grant from the World Bank's Jobs and Development Group, brought together leading researchers from China, Africa, and internationally.

The keynote speaker was **Francisco Ferreira**, World Bank Chief Economist for Africa. He pointed out that although Africa is home to 6 of the 10 fastest-growing economies in the world in the last decade, most Africans remain poor and African economies remain reliant on agriculture and mining (still more than 50% of GDP), with urbanization often occurring without industrialization, rather relying on construction and services. With China gradually losing its comparative advantage in low-wage manufacturing, there may be new opportunities for Africa to benefit from Chinese trade and FDI. However, despite recent growth in manufacturing in Nigeria and in Ethiopia (with Chinese FDI), most African countries have difficulty meeting the other key requirements for manufacturing such as skilled labour, a reliable power supply, and good transport and logistics.

Several presentations dispelled myths about China's engagement with Africa. **Xiaofang Shen**, who conducted a survey of private Chinese firms in Africa as a World Bank economist, pointed out that although oil and extractive industries still make up 30% of Chinese investment projects in Africa, there has recently been a marked diversification into financial services (19%), construction (16.4%), and manufacturing (15.3%). Also, private FDI is increasing fast, often in manufacturing and services at small scales, and is now almost as large as state-owned FDI even though it is not reflected

in China's official data. **Deborah Brautigam**, Professor at Johns Hopkins SAIS, found that reports of massive land grabs by Chinese investors were wildly overstated. Actually, China is not even among the top 50 countries investing in African agriculture.

**Barry Sautman**, Professor in the HKUST Division of Social Science and IEMS Faculty Associate, debunked the myth that Chinese employers hire only Chinese workers and not locals. Based on 400 interviews with Chinese investors in 11 countries, he found that the average workforce of Chinese employers was 80% African, and that the logic and pace of localization was similar for Chinese firms as for other foreign-invested firms.

Discussing the research agenda going forward, HKUST IEMS Director **Albert Park** observed that due to the poor quality of official data much work needs to be done to document the size, nature and direction of foreign direct investment flows from China to Africa based on both African and Chinese sources. There also is great need for firm and industry studies in different sectors (manufacturing, construction, services, and agriculture) that analyse how Chinese investment and trade influence technology transfer, productivity growth, and employment in both Chinese and domestic firms.



Learn more about the event at  
<http://iems.ust.hk/zbpf>

## FINANCIAL INCLUSION: AN UNTAPPED MARKET

HKUST Business Insights Presentation Series  
(2014.10.07)

**Kellee Tsai**, the Division Head and Professor of Social Science at HKUST, and **Arnaud Ventura**, entrepreneur and founder of PlaNet Finance Group, MicroCred Group, and mBank Holding, discussed the challenges facing emerging market entrepreneurs excluded from the formal banking system and having to look elsewhere for financing.

Prof. Tsai explained that China has a unique dualism in state capitalism by having a mixed economy that is both state-dominated and market-oriented. One consequence of having a state-dominated economy is that the financial interests of smaller businesses and entrepreneurs tend to be ignored. She made it clear that not all forms of informal financing are necessarily illegal in China and there are a wide range of informal financial institutions. There is uninstitutionalized financing in the form of uncollateralized loans amongst family and friends, and semi-institutionalized forms of finance such as non-governmental investment alliances or reciprocal loan guarantee networks. Finally, there are nongovernmental institutionalized forms of finance like microfinance companies. Prof. Tsai even mentioned online peer-to-peer lending, an area of virtual lending rapidly growing throughout the developing and developed worlds. In short, informal lending vehicles and services have begun to proliferate amongst small-to-medium scale businesses and lower-income groups as financing via traditional bank lending has become more difficult to obtain.

To illustrate financial inclusion within these groups, Mr. Ventura used the example of a small village in Madagascar which, being too far away from a bank, had to develop its own forms of finance. He pointed out that even the poorest of families—



Kellee Tsai



Arnaud Ventura

those living on less than \$2 a day — make use of various financial instruments: they may save money under a mattress, entrust money to relatives, or take loans from friends and local businesses.

Many of these people have unpredictable incomes and even more unpredictable health conditions — what Mr. Ventura calls “fragilities”. Because upwards of 60% of the world falls into this group, it remains a huge untapped opportunity from a financial standpoint. Only a handful of NGOs existed in the 1990s offering microfinance services to the poor, reaching an estimated 10 million people. By the late 2000s to present day, dozens of microfinance institutions exist, both nonprofit and for-profit, reaching an estimated 200 million people. Growth in the microfinance market is only expected to continue, as the vast majority of the world’s poor — whether because of lack of microcredit availability, lack of awareness, or other reasons — have yet to avail themselves of microcredit opportunities.



Watch the presentations at  
<http://iems.ust.hk/138y>

## HOW DOES FOREIGN BANK ENTRY AFFECT MONETARY POLICY EFFECTIVENESS? : EXPLORING THE INTEREST RATE PASS-THROUGH CHANNEL

HKUST IEMS Academic Seminar  
(2014.09.22)

**Sasidaran Gopalan**, a Post-doctoral Research Fellow at HKUST IEMS and the HKUST Jockey Club Institute for Advanced Study (IAS), presented his research on foreign bank entry (FBE) in emerging and developing economies (EMDEs), which have been subject to increasing financial sector internationalization in recent years. Dr. Gopalan investigated the impact of FBE on macroeconomic and financial stability, a topic of great research interest along with FBE’s impacts on banking efficiency and EMDE financial development.

The study of Interest Rate Pass-Through (IRPT) is of significance given the growing popularity of inflation targeting and the use of interest rates as a tool for macroeconomic management. In EMDEs where the financial system is mainly bank-based and government-dominated, how changes in policy rates affect market interest rates and aggregate demand is an important topic. High degrees of FBE on the one hand can improve banking efficiency and enhance financial development, thereby increasing IRPT. On the other hand, it may reduce IRPT because it can weaken moral suasion, which is the main way that policy affects lending rates in EMDEs with under-developed financial markets and limited competition in the banking sector.



Sasidaran Gopalan



Christina Jenq

Dr. Gopalan examined how foreign banks influence the degree of IRPT and the threshold effect of FBE’s impacts. His empirical results showed insignificant effects of foreign bank entry on money market rates using a baseline model. However, when splitting the sample into high and low levels of bank presence, Dr. Gopalan found that increases in FBEs are associated with reductions in lending rates only when foreign bank penetration passes a sufficient threshold. He also found that the impact of FBE on IRPT declines when controlling for banking concentration, suggesting a role for regulations to avoid sector oligopoly by foreign banks.

Dr. Gopalan joined IEMS in August 2014 and studies financial development in emerging markets in Asia. He is one of two Post-doctoral Research Fellows employed by HKUST IEMS and IAS, the other being **Christina Jenq**, a family and labor economist specializing in China and the developing world.



Learn more about the event as well as the related Thought Leadership Brief authored by Dr. Gopalan at <http://iems.ust.hk/zpn6>

## 8TH ASIAN CONFERENCE ON APPLIED MICRO-ECONOMICS/ECONOMETRICS – THEME: LABOR ECONOMICS (2014.11.28-29)

Cosponsored by HKUST IEMS and the Department of Economics, the conference featured a keynote address by **Mark Rosenzweig** of Yale University and presentations of new research on wage determination, education, and health by many of the leading labor economists in Asia, including Hong Kong, Taiwan, mainland China, Japan, Korea, and Singapore.

Prof. Rosenzweig began the conference by detailing his research on the benefits of a rainfall index insurance product offered in a randomized control trial in India to both agricultural land owners and agricultural wage laborers. He found that selling insurance only to land-owning cultivators (and not to landless workers) can make wage laborers worse off relative to no insurance being offered at all due to increased wage volatility.

Two papers offered new insights into the economic returns to college education in China. **Xinzheng Shi** of Tsinghua University found that China's expansion of college education led to declining returns to schooling for young college graduates but rising returns to schooling for older college graduates. He suggested that complementarities between older skilled workers and both younger skilled workers and less skilled workers can explain these changes. **Hongbin Li** of Tsinghua University found that the returns to college education are higher in cities that import more capital equipment, suggesting a link between globalization, technology, and the college skill premium.

National Taiwan University's **Claire Hsiu-Han Shih** and **Ming-Jen Lin** investigated the impact of early life exposure to malaria on adult outcomes by using Taiwan's 1950 malaria eradication campaign as a natural experiment to compare birth cohorts with different levels of exposure to the disease. They found that malaria eradication led to significantly higher educational attainment and incomes for men and their families, with no similar positive benefit found for adult women.

In 2010, the Wall Street Journal reported on a puzzling trend that birth weights have been declining recently in the US. Another recent trend is that more and more women are choosing to deliver by Caesarean section for reasons of convenience. **Sok Chul Hong** and **Jungmin Lee** of Sogang



University analyzed a large dataset on births and infant health outcomes, finding that the two trends are linked: electing to induce labor can increase the chances of delivering a weaker child more susceptible to infant mortality. This suggests that policies should promote awareness of the health risks of induced births, and perhaps make it more difficult or costly for mothers to induce births without sound health reasons.

Other presenters included **Masaru Sasaki** (Osaka University), **Junsen Zhang** (Chinese University of Hong Kong), **Yasuyuki Sawada** (University of Tokyo), **Christina Jenq** (HKUST), **Izumi Yokoyama** (Hitotsubashi University), **Seik Kim** (Korea University), **Shuaizhang Feng** (Shanghai University of Finance and Economics), **Sujata Visaria** (HKUST), **Myoung-jae Lee** (Korea University), **Jin-Young Choi** (Goethe University Frankfurt), **Li Han** (HKUST), and **Kamhon Kan** (Academia Sinica, Taiwan).



Learn more about the event at  
<http://iems.ust.hk/j0xi>

## OTHER HKUST IEMS ACADEMIC SEMINARS



**Christopher A. Hartwell** 2014.11.04  
Center for Social and Economic Research

The Impact of Financial Institutions on Property Rights – and the Impact of Institutions on Financial Volatility in Transition Economies



**Denis Simon** 2014.10.21  
Arizona State University

China's Evolving International Science and Technology Relations: Opportunities and Challenges

**Mark Blyth** 2014.09.16  
Brown University

The Ten-Year Long Recession: Why the Future of Europe is Not Bright, and Why this matters to Asia (Social Science Seminar co-sponsored by HKUST IEMS)



**Nicholas R. Lardy** 2014.09.15  
Peterson Institute for International Economics

Markets over Mao: The Rise of Private Business in China (Social Science Seminar co-sponsored by HKUST IEMS)



# THE IMPACT OF GLOBAL DEMOGRAPHIC CHANGES ON THE INTERNATIONAL SECURITY ENVIRONMENT

HKUST IEMS Academic Seminar (2014.10.06)

**Jack Goldstone**, Virginia E. and John T. Hazel Professor of Public Policy at George Mason University and Senior Fellow at the Brookings Institution, presented his research on the effects of demographic change on the global security environment.

First and foremost, Prof. Goldstone made clear that he does not see overpopulation as a threat now or in the near future. He believes that nature is resilient, and that the planet will be able to handle growth in population. Whether the environment becomes so damaged that life on earth becomes less tenable is a related but separate issue that will require an appropriate international policy response.

He focused much of his presentation on the geographic areas and population groups forecasted to experience the greatest population growth, namely: Sub-Saharan Africa, the global middle class, major cities, Muslims, and the elderly.

Although he admitted that a growing middle class appears to be a good thing, Prof. Goldstone also pointed out that there is a dark side to the rapid growth of the middle class. In Africa, education has a tendency to produce radicalism. Although education can be liberating, it can also lead to romanticism, nationalism, and unrest. Since not all upwardly mobile people are law-abiding citizens, their growth in numbers can lead to increased crime. Many areas that see a growing middle class also see much of their population migrate away, taking their skills and money with them. Prof. Goldstone made

an interesting point that the world has never seen a time when elderly people were the majority, and it will be difficult to predict exactly what will happen when this occurs.

He also discussed the importance of Western countries working towards finding common ground with Muslim populations especially given that Muslim populations are set to have the highest growth out of any subgroup in the coming 50 years.

Although he presented copious amounts of data to demonstrate the coming challenges of demographic growth in future decades, Prof. Goldstone remained positive that better policies could address the potential problems associated with such growth and turn them into opportunities for better international dialogue and global cooperation.



Watch the video recording of the seminar at <http://iems.ust.hk/sodn>

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