



Welcome to the second issue of the ADB-Asian Think Tanks Network e-Newsletter!

This e-Newsletter is prepared by the ADB-Asian Think Tanks Network Secretariat. Its contents were based on the presentations/messages shared during the ADB-Asian Think Tank Development Forum 2014 in Seoul, Republic of Korea. They were not reviewed by the presenters/speakers.

ADB-Asian Think Tanks Network Secretariat

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The ADB-Asian Think Tank Development Forum 2014: Highlights

“Promoting Innovation and Inclusion for a Prosperous Asia” was the theme of the ADB-Asian Think Tank Development Forum, held 20–21 November 2014 at the Grand InterContinental Seoul Parnas, Republic of Korea. The forum was organized by the Asian Development Bank (ADB) in partnership with the Korea Development Institute (KDI), one of the world’s leading think tanks. Sixty-eight participants represented 40 think tanks from 26 countries in Asia and the Pacific, along with representatives from the United Nations Development Programme, the Korea International Cooperation Agency, and the International Labour Organization. KDI provided excellent arrangements and the Republic of Korea’s Ministry of Strategy and Finance offered valuable support, guaranteeing the forum’s success.

The discussions on innovation and inclusion covered both global and regional issues and policy developments, as well as country-specific experiences and policies. A mix of plenary and parallel sessions provided ample time for discussion and knowledge-sharing among participants. The opening plenary session was followed by several presentations/discussions, before delving into the forum’s four sub-themes: (i) opportunities and challenges of globalization and regional integration in Asia; (ii) innovation and escaping the middle-income trap; (iii) inclusive growth and social protection; and (iv) addressing poverty



Official group photo of the ADB-Asian Think Tank Development Forum 2014

and inequality. It concluded with an assessment of progress made thus far and ways to sustain the ADB-Asian Think Tanks Network. For more informal networking, the group visited several cultural attractions the afternoon of the second day.

Opening Session

Key Messages

Hyung-Hwan Joo, Vice Minister of the Ministry of Strategy and Finance, Republic of Korea, delivered the keynote address, saying that the forum offered an opportunity to explore how different countries avoid or escape the middle-income trap. He also said participants should collectively seek ways to achieve economic innovation and social cohesion.

“Asia is well-established as the “factory floor of the world,” being the hub of the manufacturing and information technology industries. Asia is also where the most successful economic development in recent history took place and maintained a high growth rate after the 2008 global financial crisis. However, it is also here in Asia where a substantial portion of the population suffer from absolute poverty and prevalence of illiteracy, coupled with income disparity that continue to plague the region. These challenges must be overcome, especially since many opportunities lie in the horizon.”

Joon-Kyung Kim, President of the Korea Development Institute, welcomed the participants and said KDI was happy to co-host the forum, building on the successful 2013 forum held in Beijing. He stressed the importance of knowledge-sharing, drawing appropriate policy lessons, and the need for countries and organizations to collaborate when assessing Asia’s policy challenges within the broad context of sustainable development.

Juzhong Zhuang, ADB Deputy Chief Economist, said participants should tackle the issues raised under the four forum sub-themes broadly and deeply. He stressed how regional knowledge-sharing can boost the capacity of think tanks to better advise policymakers in promoting innovation and inclusion.



Hyung-Hwan Joo



Joon-Kyung Kim and Juzhong Zhuang

broad-based program of trade, industrial and human resource development, the country generated rapid, shared growth, similar to other East Asian economies such as Japan and the People’s Republic of China (PRC). In recent years, however, the Republic of Korea faced diminishing growth prospects and increasing socioeconomic disparities requiring an effective new policy package—one that nurtures a business ecosystem to promote innovation, an integrated labor market to provide compensation linked to productivity, and a proactive public finance system to address economic and social disparities.

Opportunities and Challenges of Globalization and Regional Integration in Asia

Presentations

Taejong Kim, Professor, KDI School of Public Policy and Management, moderated the session.

Juzhong Zhuang gave a presentation on ADB’s *Key Indicators for Asia and the Pacific 2014—Poverty in Asia: A Deeper Look*. The region’s rapid growth has led to a dramatic reduction in extreme poverty at \$1.25/person/day. Yet many argue that this conventional poverty line is inadequate; it underestimates the cost to maintain a minimum living standard by the poor. He highlighted three sources of underestimation: Asia-specific consumption pattern, food insecurity, and increasing vulnerability of low income households to shocks caused by natural disasters, economic crises, or illness. Considering these factors together would increase Asia’s extreme poverty to 50% in 2010 from 21% at the conventional measure. He concludes that, despite the huge gains already made, alleviating poverty will continue to be a significant challenge in Asia for decades to come.

Wonhyuk Lim, Executive Director of KDI’s Center for Regulatory Studies, gave a presentation on “New Directions for a Rapidly Maturing Miracle Economy: the Case of Korea.” He illustrated how the Republic of Korea—through the joint government and private sector efforts—was able to boost its comparative advantage in labor-intensive manufacturing, leading to export-oriented industrialization. Through a coordinated and

The session on globalization and regional integration was moderated by **Rathin Roy**, Director of the National Institute of Public Finance Policy, and **Rethy Kieth Chhem**, Executive Director of the Cambodia Development Resource Institute.

Xiaoming Huang, Director of the New Zealand Contemporary China Research Centre, discussed the status of ongoing Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP) negotiations, their implications for the development of multilateral institutions in Asia and the Pacific, and their impact on economic growth and development in the region. These



Wonhyuk Lim



Rathin Roy, Xiaoming Huang, Guoqiang Long, and Willem Thorbecke

complexities are outlined in his paper, “Economic Structure and Regional Institutions: A Political Economic Analysis of TPP and RCEP.” The TPP and RCEP are frameworks for free trade areas. But, more importantly, they are platforms for deeper economic integration. The TPP and RCEP should be welcomed as they include key economies with substantial interests in the region.

Guoqiang Long, Director General of the PRC’s Development Research Center of the State Council, presented his paper, “China’s Processing Trade and Labor Change,” which primarily discusses the re-export of processed products with imported content exempt from tariffs and value-added-tax. Processing trade reached \$2,731 billion or 14.8% of the PRC trade surplus in 1981-2012. Over the past 25 years, low-cost, quality labor made the PRC attractive to foreign investors as an export base for labor-intensive manufacturing. However, the recent rapid increase in labor costs and high employee turnover (and resignations) have created new challenges. Nonetheless, the growing number of university graduates, rapid growth in domestic demand, good infrastructure, and the development of industrial clusters are bringing new impetus to manufacturing.

Willem Thorbecke, Senior Fellow at Japan’s Research Institute of Economy, Trade and Industry, presented his paper, “Enjoying the Fruits of their Labor: Redirecting Exports to Asian Consumers.” There has been an explosion of parts and

components traded within East Asian production networks. The PRC has emerged as final assembly point for the goods produced, which flow primarily outside the region. The global financial crisis decreased demand from the United States and Europe, bringing a synchronized decline in Asian exports. Greater Asian consumer demand would provide insurance against the effects of another economic slowdown elsewhere.

Leeber Leebouapao, Director General of the Lao People’s Democratic Republic (Lao PDR) National Economic Research Institute, emphasized the benefits and challenges in his paper, “Lao PDR’s Joining the ASEAN Economic Community by and after 2015: Opportunities and Challenges.” Establishing an ASEAN Economic Community by 2015—initially through a single market and production base—will enable the Lao PDR to better integrate within the ASEAN market, expanding market access and joining production networks within the region through the free flow of goods—and eventually services, capital, and skilled labor.

Qiangwu Zhou, Deputy Director General of the PRC’s Asia-Pacific Finance and Development Center Beijing Office, presented his paper “PPP Modality in China: Experience and Way Forward.” PRC local governments began using public-private partnerships (PPPs) in the 1980s, mostly for infrastructure projects. To date, over 1,000 infrastructure PPPs have been implemented through schemes such as build-operate-transfer



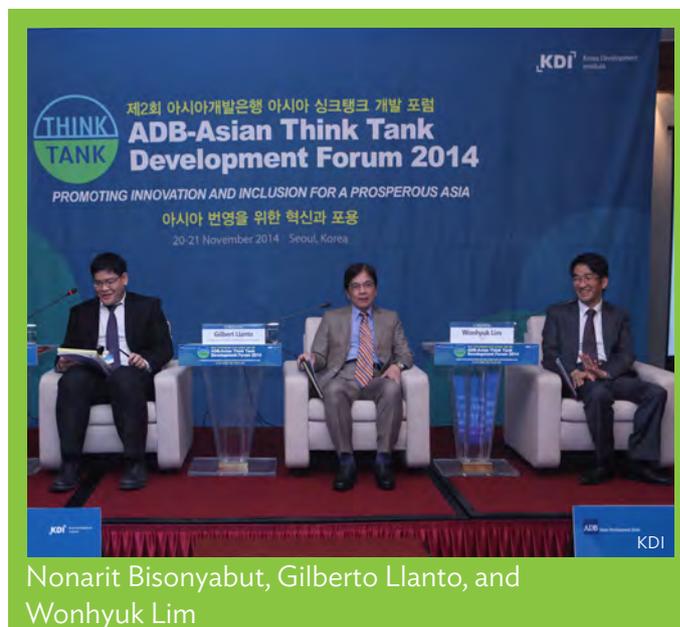
Rethy Kieth Chhem, Leeber Leebouapao, and Qiangwu Zhou

and build-transfer with a total value of more than \$160 billion. Over the past 2 years, the PRC central government has strengthened its PPP modality to deepen reforms as part of an overarching objective of increasing the use of market forces in allocating resources.

Innovation and Escaping the Middle-Income Trap

Derek Brien, Executive Director of Vanuatu's Pacific Institute of Public Policy, and Nonarit Bisonyabut, Research Fellow at the Thailand Development Research Institute, moderated the session on innovation and escaping the middle-income trap. This session was conducted parallel to the session on the opportunities and challenges of globalization and regional integration in Asia.

Poh Kam Wong, Director of the NUS Entrepreneurship Centre and Professor at the NUS Business School in Singapore, presented his paper, (co-authored by Yuen Ping Ho) "An Exploratory Cross-Country Analysis of the Relationship between New Firm Entry and Income Inequality." The study describes the empirical relationship between entrepreneurship and income distribution using data from 32 developing and advanced economies. A key finding is that increasing rates of new firm entry are associated with widening income inequality. The study also found that higher levels



of new firm entry widen the income gap, more so in developing economies compared with advanced economies. These findings suggest several policy implications for mid- to high-income economies with respect to entrepreneurship development and promotion.

Zakariah Bin Abdul Rashid, Executive Director of the Malaysian Institute for Economic Research, discussed his research on "Malaysia's Structural Impediments to High Income Status: Decomposition Analysis of Output Growth 1991-2005." Over time, Malaysia has evolved into a robust modern economy. Extreme poverty has almost been eradicated. Malaysians have full access to universal basic needs such as health, education, communications, and other amenities and services. The vast majority of the people have achieved a commendable level in their quality of life. In its pursuit to raise this quality of life further, the country has set a 2020 target to attain advanced economy status. Currently, however, the economy is stuck in the middle-income trap. The economy requires a structural transformation if it seriously wants to achieve high-income status.

Alibek Konkakov, Analyst of Kazakhstan's Economic Research Institute discussed his study (co-authored by Bakhytzhan Kurmanov) on "Industrial Policies to Escape from the Middle-Income Trap: Cases of Uruguay and Malaysia." The study focused on the industrial and innovation policies of the two countries designed to move



through middle-income status. He explained what allowed Uruguay to recently escape the middle-income trap and what continues to hold Malaysia back. The comparison showed that the critical component necessary to escape the middle-income trap is effective institutions—the need for effective, limited government intervention in the economy. Malaysia’s active (and excessive) involvement in industrialization—picking “winners” and intervening to promote interracial wealth distribution—helped create the trap. In contrast, Uruguay developed more democratic institutions that focused more on providing sufficient conditions for the private sector to thrive.

Gilberto Llanto, President of the Philippine Institute for Development Studies, presented his study, “Does Innovation Mediate Good Performance?” The current Philippine Development Plan expects that the growth and development of small and medium enterprises will significantly add to economic growth and, more importantly, generate enough new jobs to reduce poverty. His analysis shows that innovation does mediate good firm performance, as product and process innovations increase sales and profits, and improve labor productivity. Firm size, age, and foreign equity participation are also important factors in pushing firms to innovate.

Wonhyuk Lim, Executive Director of KDI’s Center for Regulatory Studies, discussed his article, *Chaebol and Industrial Policy in Korea*. The Republic of Korea launched its export-oriented industrialization policy in the early 1960s, reversing its previous bias against exports by using latent comparative advantage to develop labor-intensive manufacturing. While continuing to pursue export-oriented industrialization for better resource allocation, scale economies, and dynamic learning effects, the country moved quickly to develop its potential comparative advantage in more sophisticated industries, rather than wait for income and skill levels to rise on their own. The government and private sector systematically studied what had to be done to fill the missing links in the domestic value chain and move up the quality ladder, from the outset aiming to bolster international competitiveness. As private sector capacity increased and sectoral targeting grew

more difficult, the country shifted to a more sector-neutral approach, which supported industrial rationalization and research and development regardless of sector. This fit the larger shift from industrial policy to policies promoting competition and better corporate governance—beginning with the enactment of the 1980 Monopoly Regulation and Fair Trade Act. Having now “caught up,” the Republic of Korea is attempting to address the long shadow cast by the big-push partnership between the *chaebol* and government.

Inclusive Growth and Social Protection

The second day of the forum began with the session on inclusive growth and social protection, moderated by **Zaw Oo**, Executive Director of the Myanmar Development Resource Institute. Similar to the previous day’s afternoon session, the session was held parallel with the session on addressing poverty and inequality.

Radhicka Kapoor, consultant at the Indian Council for Research on International Economic Relations, showed the results of her analysis on why the role of the organized manufacturing sector has been so modest in employment creation in her paper, “Creating Jobs in India’s Organized Manufacturing Sector.” The immediate concern is that if employment growth has been so low during a period of high output growth, it will probably become even worse now when India’s GDP growth





Rathin Roy and Tran Kim Chung

has weakened so much. The findings showed the negative relationship between employment growth and labor market regulations, with firms responding to inflexibilities in the labor market by substituting contract labor for permanent workforce and adopting capital intensive techniques of production. There are no regulations for decent conditions of work and no provision for social security of any kind for the workers in the unorganized sector. The study emphasized that central government policy impetus alone cannot accelerate growth in manufacturing. Creating a more favorable investment climate at the state level is imperative, consistent with the finding that manufacturing subsectors operating within a more liberal business environment and more developed infrastructure exhibited faster growth.

Rathin Roy, Director of India’s National Institute for Public Finance Policy, presented his paper, “Inclusive Growth Agenda: A Case for Emerging Mega Economies.” Emerging mega economies (EMEs) globally face twin challenges in using fiscal policy instruments. The first, longer term, is for fiscal allocation, distribution and growth enhancement to provide inclusive growth without jeopardizing macroeconomic stability. The second is to protect inclusive growth from exogenous shocks through fiscal stabilization. The 2008/09 global economic crisis was used to examine these issues from a policy perspective using three Asian and two non-Asian EMEs—India, the PRC, Indonesia, Brazil, and Turkey. The study found an apparent case for redistributive measures to

address the increase in top–bottom inequity in consumption. However, it found that this may have been feasible only in the PRC, given its fiscal prudence. In all other EMEs studied, inclusion is best served by using fiscal policy as an instrument to maximize public spending on merit goods and to secure growth that maximizes the macro-fiscal environment.

Tran Kim Chung, Vice President of Viet Nam’s Central Institute for Economic Management, presented his paper, “Social Protection for Small-Scale Agriculture—Evidences from Viet Nam.” With accelerating globalization and increased environmental concerns, the combination of new and old vulnerabilities, particularly related to poverty, pose a specific set of challenges to design resilient measures and build a responsive social protection system—especially for those in agriculture. Coupled with currently weak social protection, this would seriously threaten Viet Nam’s future development if unaddressed. It ultimately requires fundamental social protection system reform, which should bolster local resilience and reduce poverty incidence.

Kamila Mukhamedkahnova, Researcher at Uzbekistan’s Center for Economic Research, discussed her paper, “Effective Social Protection for Transforming Economy and Society of Uzbekistan.” The existing social protection model—introduced in Uzbekistan in early 1990s to mitigate the large, adverse transitory effects of economic reform—prevented a sharp drop in living standards and ensured social support that targeted the most needy. Over the long-term (through 2030), several reforms are needed to improve the model and offer incentives to accelerate Uzbekistan’s economic transformation, its society and institutions.

Addressing Poverty and Inequality

Dushni Weerakoon, Deputy Director of the Institute of Policy Studies of Sri Lanka, moderated the session.

Carunia Mulya Hamid Firdausy, Director of the National Research Center for Economics, Indonesian Institute of Sciences, discussed his



Dushni Weerakoon, Carunia Mulya Hamid Firdausy, Ram Chandra Dhakal, Shujaat Farooq, and Taejong Kim

study on “Alternative Concept and Measure of Poverty in Indonesia.” The study proposes to use a subjective poverty line of Rp500,000/person/month (\$42), nearly double the official poverty line of Rp302,000/person/month (\$25). The subjective poverty line is useful both in measuring poverty incidence and, more importantly, to determine the real conditions of the poor—to give the government more accurate data to design and implement policies and programs to reduce poverty and improve the quality of life of Indonesia’s poor.

Ram Chandra Dhakal, Executive Director of Nepal’s Centre for Economic Development and Administration, Tribhuvan University, discussed “The Impact of Remittance on Poverty and Inequality: Evidence Using Data on Labour Migration in Nepal.” The study showed that the biggest chunk of remittance income was spent on food, non-food expenses (such as housing, vehicles, and loan repayments) and education. Aside from increasing household income, consumption levels and savings, overall family health improved. While these benefits are easily seen and felt, policies are needed to encourage remittance use to promote longer-term growth and provide income security.

Shujaat Farooq, Researcher Economist at the Pakistan Institute of Development Economics, described his research on “The Rural Non-Farm Economy, Livelihood Strategies and Household Welfare in Rural Pakistan.” Various micro datasets were used to analyze the role of rural non-farm

enterprises in providing rural employment and linkages with household welfare, including poverty incidence and school enrollment of children aged 5-15 years. The results showed that the majority of non-farm enterprises are informal or microenterprises with limited production activities. They are the major sources of employment and income for poorer rural households. While there is more rural poverty among non-farm households, it is not worse for paid non-farm workers than paid agricultural workers. The non-farm economy may not significantly impact rural poverty reduction, but it has a significant positive impact on school enrollment.

Taejong Kim, Professor at the KDI School of Public Policy and Management, presented his paper, “Sustained National Deworming Campaign in South Korea.” The presentation described the Republic of Korea’s successful nationwide deworming campaign—jump-started in 1969 with a 3-year massive assistance program from the Overseas Technical Cooperation Agency of Japan, culminating in the 1997 World Health Organization declaration that the country was essentially worm-free. The study concluded that, to maximize returns from public investment, it is crucial that measures are sustained long enough to attain their stated goal.



Dushni Weerakoon and Taejong Kim



Juzhong Zhuang, Dongxiang Li, and Wonhyuk Lim



Maria Christina Dueñas

Asian Think Tank Networking: Sustaining the ADB-Asian Think Tanks Network

Dr. Zhuang moderated the closing session on think tank networking.

Dongxiang Li, Advisor in ADB's Regional and Sustainable Development Department, apprised on the developments and activities since the first Beijing forum in 2013. These include the establishment of the ADB-Asian Think Tanks Network (ATTN) and the creation of a website for the network; dissemination of the first issue of the e-Newsletter; publication of the Proceedings of the first forum; and, conduct of a survey to measure participant satisfaction with the first forum and act as guide in designing the current forum. Although ADB serves as network co-financier, generous response from the co-hosts—Asia-Pacific Finance and Development Center in Beijing and Korea Development Institute in Seoul—have freed up resources in running both forums.

Maria Christina Dueñas, Knowledge Sharing and Services Officer at ADB, introduced the ATTN website (www.adb-asianthinktanks.org), walking participants through the various website features which serves as a repository for forum materials and showcases the ATTN member activities. Link to the members' research publications related to innovation and inclusion are provided on the website. Members were also encouraged to use the website to promote their activities, by

providing the Secretariat with the information to be posted, as well as to link traffic between think tank and ATTN websites.

A vibrant discussion from participants led to several suggestions that include the creation of an alumni section on the website and webinars. The importance of holding the annual forum was emphasized with ADB's role as facilitator to link research and policy. Think tanks need to work more closely with ADB in selecting suitable forum topics. To sustain the forum, the possibility of holding it on the sidelines of other international conferences and/or including the think tank participation in the Country Partnership Strategy process were raised.

For the 2015 Forum, **Zakariah Bin Abdul Rashid** (MIER) announced that Malaysia accepts co-



Zakariah Bin Abdul Rashid



In-front of Dawon Tea Cafe, where the participants had tea and sweets the traditional way

hosting role in Kuala Lumpur to be held between June and September. Suggestions for potential topics for the forum include the post-2015 Development Agenda, macroeconomic outlook for Asia and the Pacific; short-term concerns that can evolve into longer-term issues; and regionalization. To examine issues on a broader level and get regional perspectives, participants suggested more plenary sessions and the invitation of internationally-renowned speakers.

Optimized Networking

Forum participants appreciated and enjoyed networking activities arranged by the organizers. A day before the formal opening of the forum, participants were welcomed at an informal reception to rekindle ties begun during the first forum and to introduce new attendees.

In addition to building and strengthening linkages, participants enjoyed the array of Korean dishes (including *bibimbap*) at the 20 November dinner hosted by KDI. The family members accompanying several participants and the KDI staff also enjoyed the event.

A fitting close to the camaraderie after nearly three days in Seoul included the sights and the laughter shared while touring the city—an experience to bring back to their home countries. They had an aerial view of the city atop the Seoul Tower and were introduced to cultural sites—such as the *hanoks* (traditional houses built in the 1920s) in

the Bukchon Hanok Village and took in Dawon, the Korean traditional tea café.



Chatting and laughing while walking the busy street of Seoul



Savoring the experience of the Korean traditional tea and sweets

2014 Forum: List of Participating Think Tanks

1. *Asia-Pacific Finance and Development Center, People's Republic of China*
2. *AVAG Solutions Ltd., Armenia*
3. *Bangladesh Institute of Development Studies*
4. *Cambodia Development Resource Institute*
5. *Center for Economic Development and Administration, Nepal*
6. *Center for Economic Research, Uzbekistan*
7. *Central Institute for Economic Management, Viet Nam*
8. *Chomdan Inc., Republic of Korea*
9. *Development Research Center of the State Council, People's Republic of China*
10. *East Asia Foundation, Republic of Korea*
11. *Economic Research Institute, Kazakhstan*
12. *Economic Research Institute for Trade, Lao People's Democratic Republic*
13. *Gyeonggi Research Institute, Republic of Korea*
14. *Han-A Urban Research Institute, Republic of Korea*
15. *Indian Council for Research on International Economic Relations*
16. *Institute of Policy Studies, Sri Lanka*
17. *ISET Policy Institute, Georgia*
18. *Kims Research Center, Republic of Korea*
19. *Korea Capital Market Institute*
20. *Korea Development Institute*
21. *Korea Institute for International Economic Policy*
22. *Malaysian Institute for Economic Research*
23. *Mongolian Development Institute*
24. *Myanmar Development Resource Institute Centre for Economic and Social Development*
25. *National Academy of Economic Strategy, Chinese Academy of Social Sciences*
26. *National Economic Research Institute, Lao People's Democratic Republic*
27. *National Institute of Public Finance Policy, India*
28. *National Institute of Strategic Studies, Kyrgyz Republic*
29. *National Research Centre for Economics, Indonesian Institute of Sciences*
30. *National Research Institute, Papua New Guinea*
31. *NUS Entrepreneurship Centre, National University of Singapore*
32. *New Zealand Contemporary China Research Centre*
33. *Office of International Research and Cooperation, Policy Research Institute, Ministry of Finance, Japan*
34. *Pacific Institute of Public Policy, Vanuatu*
35. *Pakistan Institute of Development Economics*
36. *Philippine Institute for Development Studies*
37. *Research Institute of Economy, Trade and Industry, Japan*
38. *Samwoo Industries Development Co. Ltd., Republic of Korea*
39. *Science and Technology Policy Institute, Republic of Korea*
40. *Thailand Development Research Institute*

- ADB recognizes “China” as the People’s Republic of China and “South Korea” as the Republic of Korea.



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