

**First Biennial Conference of Hong Kong Economic Association
The Asian Pacific Economies in the New Millennium**

Paper Abstracts

15 December 2000

Morning

11:30-1:00

Session A: The Chinese Economy in the Wake of her Accession to the WTO (「入世」前夕展望中國的經濟前景與金融改革)

1. “Economic Growth and Fluctuation in China”, LIU Shucheng (Director, Institute of Economics; and Director, Research Centre for Hong Kong Economy, Chinese Academy of Social Science)
“中國經濟增長與波動的分析”, 劉樹成 (中國社會科學院經濟所所長、香港經濟研究中心主任)
2. “The Mid- and Long-term Outlook of the Chinese Economy: Sources of Growth, Trend, and Institutional Implications”, ZHANG Ping (Institute of Economics, CASS)
“中國經濟的中長期展望：動力、體制和趨勢”, 張平 (中國社會科學院經濟所)
3. “Readjustments in the Financial System and Development of the Stock Market in China”, LIU Xiaohui (Institute of Economics, CASS) “金融結構調整與證券市場發展”, 劉霞輝 (中國社會科學院經濟所)
4. “The Prospects of the B-Share in China’s Stock Market”, JU Jinwen (Institute of Economics, CASS)
“中國 B 股市場的回顧與展望”, 劇錦文 (中國社會科學院經濟所)

Session B: Currency Board

1. “A Theoretical Framework for Currency Board Arrangement”, Alex CHAN (HKU)

This paper presents a theoretical framework for classical currency board arrangement. The theoretical framework demonstrates the instability of classical currency board arrangement. In addition, we examine a foreign reserve commitment policy, proposed by Chan and Chen (1999). The foreign reserve commitment policy not only can enhance the stability of currency board but also perform a signaling function for government. Hence, the effective uses of foreign reserve in an "Intertemporal Currency Board" arrangement can enhance the stability of currency board, rather than just simply act as a shock absorber in classical currency board arrangement.

2. “Currency Board, Asian Financial Crisis, and the Case for Structured Notes”, Francis LUI (HKUST), Leonard K. CHENG (HKUST), and Yum K. KWAN (CityU)

The paper reviews the circumstances under which speculative attacks on the currency board of Hong Kong occurred during the Asian financial turmoil. It is shown that the conventional defense mechanism via interest arbitrage has not functioned properly during the course of the turmoil. An alternative approach of issuing structured notes to strengthen the currency board is evaluated. We show that the "technical" measures eventually undertaken by the Hong Kong Monetary Authority (HKMA) in September 1998 are functionally equivalent to issuing the structured notes, thereby providing a

natural experiment of this idea. Based on credibility measures extracted from financial market data since the inception of the board in 1983, we find that interest rate arbitrage had been working properly until the rule-bound currency board was eroded by central bank-like, discretionary policies pursued by the HKMA. However, after implementing the structured notes proposal, which effectively put the HKMA back onto the rule-bound track, interest rate arbitrage appeared to be effective again.

Session C: Trade, Competition and Economic Growth

1. “The Economics of Trade Secret Misappropriation”, Ferdinand K. LEVY (Georgia Institute of Technology)

The paper provides a critical analysis from the point of view of economists of some court decisions which involve the awarding of compensatory damages in cases where the misappropriation of a trade secret has been established. Particular attention is paid to the inconsistencies among these decisions and the fact that courts, because of their fear of awarding double recovery, may undercompensate successful plaintiffs. It also furnishes guidelines, employing economic variables, that can be used by courts to award damages more correctly in these types of cases. In order to establish these bases for damages, various types of trade secrets are defined and their respective worths to their owners are evaluated.

2. “International Division of Innovations and Long-run Growth”, CHU Hsiao Lei (National Chi-Nan University) and CHEN Nan Kuang (National University of Taiwan)

How does government subsidy policies affect the expenditures on innovative activities and economic growth? This paper investigates this effect on investment in R&D and long-run growth in a R&D-based endogenous growth model. We consider two types of innovative activities: horizontal and vertical R&D. In a closed economy, only a subsidy on vertical innovation has a positive long-run growth effect. When open to trade, given the subsidy policies, we derive conditions that determine the international divisions of R&D and long-run growth. The subsidy's long-run growth effect on R&D depends on the subsidy type and also how the subsidy reshuffles the pattern of international division of innovations.

3. “Technology Licensing and the Trade Policy”, Arghya GHOSH (University of New South Wales)

The paper reconsiders strategic trade policy when a high-cost and a low-cost firm belonging to different countries compete in a Cournot fashion in a third country market and technology is transferable. Assuming technology is transferred via licensing, optimal export policy is characterized. With fixed-fee payment mechanism, we find that both the governments would often opt for a lower subsidy compared to the Brander-Spencer subsidy rate - the optimal subsidy in absence of possibility of licensing. In fact, for a range of cost parameters, optimal policy for the government of the high-cost firm turns out to be a tax. Further, in contrast to the existing literature on strategic trade policy with asymmetric costs, we find a non-monotonic relationship between optimal subsidy and cost-competitiveness of firms. In particular, efficient firms might be taxed while relatively less efficient firms might be subsidized. With

royalties, the optimal subsidy is higher for the high-cost country and lower for the low-cost country compared to Brander-Spencer subsidy.

Afternoon

2:00-3:30

Session A: Productivity Analysis of the Chinese Economy (organized by HKBU)

1. “Dynamic Intersectoral Linkages and Economic Growth in China”, Kaliappa P. KALIRAJAN (Australian National University)
2. “Relative Productivity and Externality between China’s TVE and State Sectors”, WANG Xiaolu (National Economic Research Institute, China)
3. “Impact of China’s Industrial Policy Regime on Cross-industry Resource Allocation”, LU Ding (National University of Singapore)

The Chinese economy is featured by a strongly interventionist industrial policy regime. This paper examines the features and major instruments of this regime and their implied incentives to cross-industry resource allocation. Using the sectoral data of manufacturing industries, we evaluate the gross-allocation-effect and total-reallocation-effect in China's cross-industry resource allocation in the 1990s. The results suggest great potential gains in revamping the regime in line with the WTO rules.

Session B: APEC and Regional Economies Study I

1. “Examining Capital Market Integration in Asia”, Stefan NORRBIN (Florida State University) and Joanne LI (Loyola College, USA)

This paper models the real interest rate connection between Korea and Japan as a non-linear process that reacts stronger at the tails of the distribution. The model is tested using a threshold cointegration model, and some support is found for the existence of a non-linear response. If the Korean real interest rate exceeds the Japanese one by more than approximately 8%, and when the Japanese real interest rate exceed the Korean one by more than approximately 3% then a large capital movement exists.

2. “APEC and Regional Economic Integration: Issues and the Way Ahead”, Tony HARTONO (Open Polytechnic of New Zealand).

Established in 1989, APEC is the world’s biggest trading block. However, economic cooperation and liberalisation of trade as promoted by APEC’s Bogor Declaration of 1994 has not benefited all member countries equally and this has led to considerable tension within the region. A gap has developed between the developed and developing APEC countries and the Asian crisis of 1997-99 impacted severely on the region with some countries especially hard hit. Implementing the flexible agenda for eliminating the tension will be very challenging, but will be essential for future

growth in the APEC region and for a reduction of the income gap between the developed and developing APEC countries.

3. “The Political Economy of Hong Kong in Pre- and Post-1997”, LI Kui Wai (CityU)

The economy of Hong Kong has experienced an unprecedented period of economic growth in the thirteen years of political transition in July 1997. A key factor was due to the “short term investment” hypothesis through which optimism was widely held in the economy. While there was a wealth effect spiral in which wealth was created through the process of stock and real estate appreciation, there was a corresponding wage-price spiral that eroded Hong Kong’s comparative advantage. The buoyancy of the property sector was supported by the creation of an “upward sloping” demand, and that property appreciation brought a considerable degree of non-tradable, nominal growth in the economy. A mass bubble was formed with the enlargement of the nominal sector but shrinkage in the real sector. A “post-Olympic syndrome”, which composed of deflation, rise in unemployment and a falling aggregate demand, characterized the post-1997 economy. The four strategies applied by the post-1997 regime consisted on economic fine-tuning, building of infrastructure, widening of economic base, and a support towards long-term investment.

Session C: Macroeconomic Policy I: Applications to Asian Economies

1. “Impact of the Non-performing Loans and the Behavior of Japanese Banking System: An Empirical Analysis”, Naoyuki YOSHINO and Masao NAKATA (Keio University)
2. “From Intermediation by Diversion to Disintermediation: Declining Growth and Deflation in China”, Loren BRANDT and ZHU Xiaodong (University of Toronto)

China has experienced a prolonged period of declining inflation since 1994 during which growth has also fallen. Prices have actually declined over much of the last three years. These problems are often attributed to conditions of weak aggregate demand. Not unexpectedly, the Chinese government has cut interest rates and pursued expansionary Keynesian policies, but these measures have largely failed. We argue that the key to the sluggish growth resides in the financial sector, specifically, its inability to efficiently intermediate funds to China’s non-state sector. This has adversely affected investment in the non-state sector, which has been the source of much of the dynamism in the Chinese economy since reform. Our analysis suggests that the current reform strategy for China’s financial sector, while important, will not solve this fundamental problem. Rather, the solution lies in the introduction of new, privately owned, locally based financial intermediaries that can provide efficient intermediation for the small and medium sized enterprises.

3. “Aggregate Shock, Capital Market Opening and Optimal Bailout”, Se-Jik KIM (IMF) and Ivailo IZVORSKY (Institute of International Finance)

This paper explores the joint effect of aggregate shock and capital market opening on the optimal bailout ratio. It suggests that in a closed economy, the optimal bail-out ratio is higher in a recession than in a boom: the optimal bailout policy in a recession may be a full bailout (or zero liquidation). In an economy with open capital market, however, the optimal bailout rate (liquidation rate) may be lower (higher) than that of a closed economy: it can be only a partial bailout in a recession.

4:00-5:30

Session A: WTO and Trade Liberalization in Services

1. “Antitrust Policy and Trade Liberalization”, Souresh SAHA (National University of Singapore)

This paper considers joint determination of trade and competition policy for a country (domestic country hereafter) allowing foreign firms to enter its market. We assume domestic firm(s) to be inefficient and technology to be non-transferable. We consider two kinds of policy regimes – a) the domestic government has strict antitrust laws but provides protection to domestic firm(s) from foreign competition through tariffs and b) it allows collaboration between domestic and foreign firms but adopts trade policies that strengthen the bargaining position of domestic firm(s) regarding fee for collaboration. We characterize how the optimal policy regime depends on the relative number of domestic and foreign firms and the bargaining power of domestic firms.

2. “An Analysis of the Impact of Indo-Lanka Free Trade Agreement on the Sri Lankan Economy and its Implications for Free Trade in South Asia”, Mahinda SIRIWARDANA (University of New England, Australia)

The Indo-Lanka Free Trade Agreement (ILFTA) which was signed in December 1998 between India and Sri Lanka has shown a promising start to trade liberalisation among SAARC (South Asian Association for Regional Cooperation) countries. This paper provides a quantitative assessment of the likely impact of the ILFTA. We perform simulations using the Global Trade Analysis Project (GTAP) model to quantify the impact of liberalised trade between Sri Lanka and India. GTAP is a computable general equilibrium (CGE) model of the world economy. Using the model simulations, the paper also examines the implications of extending the free trade agreement to other SAARC nations and some of the APEC (Asia Pacific Economic Cooperation) countries. Results indicate that both Sri Lanka and India will experience some welfare gains from ILFTA. The extension of such trade agreement to all SAARC nations and APEC trading partners may create significant improvement in welfare in Sri Lanka.

3. “A Matching Model of Liberalization of Trade in Service”, Clement WONG & WU Jinhui (CityU)

We develop a matching model between service suppliers and customers within a context of ideal variety product differentiation. Following Grossman and Helpman (1999), a circle is used to represent a two-dimensional space of product specificity, while consumers' preferences are distributed along the circumference. Service suppliers in this model can select the degrees of specificity of their services to cater to the diverse preferences from their consumers. The model illustrates a source of gain from trade that arises from a closer match between customers' requirements and the degree of specificity of service providers. The model illustrates that trade liberalization improves the welfare of customers not only by increasing their chances of matching with the appropriate service providers but also by forcing service providers to deepen their degrees of specialization to their customers. Given the fact that customization is more important in services than in goods, deepening of service

providers' degree of specialization is an important source of gain from service liberalization that merits further research.

4. “On Economic Structural Effects of China's Entering of WTO”, LU Jialiu (Zhongshan University)

The prospect of China's entering WTO is certain after China and the U.S signed the agreement on the matter in Nov. 15,1999. The cost-benefit analysis on the matter by Chinese scholars has become more specific ever since. However, much of the analysis has been limited to the short-run market impacts or market opportunities of industries. The lasting dynamic effects in the middle or long run of China's entering WTO, i.e. the structural readjustment effects of an economy caused by the change of the investment fields by domestic and foreign capital have been discussed very little. This paper has analyzed the variation trend of China's economic structure after entering the WTO by means of exposing the transmission mechanism of the shock of china's entering WTO.

Session B: Regional Economic Development in China

1. “Productivity Performance and Resource Re-allocation Effects in Manufacturing in Taiwan and the Chinese Mainland”, Harry X. WU & XU Xin Peng (HKPolyU)
2. “The Changing Role of Local Governments in Economic Reform of China”, Priscilla P.K. LAU (HKPolyU)
3. “How Integrated Have Chinese Provinces Been?”, XU Xinpeng (HKPolyU)
4. “Government Policy and the Competitive Advantages of foreign-financed Firms in Guangdong of southern China”, Vincent Mok (HKPolyU)
5. “Co-operation, Competition and Development: An Comparative Study of Shanghai and Hong Kong”, HE Yuchang (Shanghai University of Economics and Finance)

Session C: Macroeconomic Policy: Applications to Asian Economies

1. “How to Prevent another Asian Crisis”, Sayuri SHIRAI (Keio University)

While Asian economies continue to recover from the lowest points of the recent crisis, policy makers throughout the region are exploring practical ways to strengthen institutions and to devise new policies to help prevent the recurrence of a set of conditions that could lead to another systemic financial collapse in the future.

This paper contains recommendations built from analysis that characterizes the nature of the recent crisis as a capital account crisis. A capital account crisis in emerging economies is driven by massive inflows of short-term, foreign-currency denominated debt relative to the underlying current account deficit, followed by a sudden and massive reversal in capital flows in an environment of their premature and weak financial systems. The paper presents integrated policy recommendations for economies with predominantly open capital account. Policy recommendations consist of two major parts. The first part focuses on policies to mitigate massive and predominantly short-term capital inflows and to mitigate double mismatches

(currency and maturity mismatches). Thus, policy recommendations cover an exchange rate regime, capital controls on inflows, and strengthening of the financial sector. The second part emphasizes policies to manage a sudden reversal of capital flows, thus containing the issues of private sector development, de-internationalization of local currencies and regional financial arrangements.

This paper was written by the Asian Policy Forum (APF) that comprises of 17 policy-oriented research institute representing 14 Asian economies and the Asian Development Bank Institute (as APF's Secretariat) in July 2000. The paper is supplemented by a detailed Technical Background Paper with a comprehensive literature survey of key issues related to the Paper and by a paper on "Developing Corporate Bond Market in Asia".

2. "Consequences of China's Monetary Policy with Changing Regimes -Overlooked "Transition" Factors", Mariko WATANABE (IDE)

This paper will try to explain the current deflationary situation on the point of appropriateness of the monetary policy by the People's Bank of China. Though regime of China's monetary policy had drastically changed due to liberalization of current account of foreign transaction in 1994, target of the monetary policy seems to have not shifted to an appropriate one. Consequently, money is inadequately supplied and investment by the firm is insufficiently financed. Additionally, a rapid increase of real demand for money, due to the financial reform and the financial deepening, exaggerate an austerity stance of the monetary policy. This paper asserts that a current deflationary situation in China is caused by an "over-killing" monetary policy that was unconscious both to a change of the monetary policy regime created by liberalization of foreign exchange and a rapid increase of real demand for money, which is a result of financial reform. Both factors on the process of transition to the market economy seem to have

3. "The World Currency Unit: How may It Help Reduce the Chances of Financial Crises?", HO Lok Sang (LU)

This paper uses the World Currency Unit framework of Ho(2000) to consider the case for a country to link their currencies to the WCU and its feasibility. It also throws light on the workability of global bonds denominated in the WCU. Empirical data from Hong Kong, Japan, the United States, the UK, and South Korea are used. The data suggest that a real exchange rate concept that can be compared across nations can be built on the WCU and is a useful explanatory variable for real exports. It is expected that a country that pegs its currency to the WCU will enjoy lower real interest rates, less fluctuations in competitiveness, and low inflation.

Session D: Economic Transition, Deflation, and the New Reform Strategy in China

1. "The Current Deflation in China: Causes and Policy Option", Justin Yi-fu LIN (China Centre for Economic Research, Peking University & HKUST)
2. "Transition Strategies: The Second Round of Debate", Wing Thye WOO (University of California, Davis)

3. “Which Countries/Regions Will Benefit More from the Growth of China”, Siang NG (Monash University)

The importance of international trade is beyond dispute in the present world of globalization, especially for the fast growing country like China. Most regions in the world are also growing rapidly. This growth in general increases the scope for China to gain more from international trade, however, others may also benefit from the growth of China. Applying the theory of enrichment effect, this paper identifies which countries and regions will benefit more from the growth of China by examining the commodity categories traded of China and selected economies.

4. “The Productivity and Profitability Conditions of China's Large Industrial Enterprises: 1996-1999”, XIAO Geng and HUANG Shaojun (HKU)
中國大型工業企業的生產效率與經營業績 肖耿 黃少軍

生產效率與經營業績所反映的是企業運行的不同側面。所謂生產效率或產出效率指的是單位要素投入所創造的產出，主要反映企業的技術水平。所謂經營業績主要指盈虧狀況。在本章中盈虧狀況特指企業創造的增加值與其全部成本之間的對比關係，主要反映企業的經營水平。本章採用較為深入細緻的方法對樣本大企業按產出效率與盈虧狀況進行了分類並詳細分析了各類企業的企業數、資產及職工跨所有制、行業及地區的分佈。以往的分析往往集中在企業數的分佈，其實，企業資產及人員的分佈是更重要更基本的資料。理論上，可以將所有虧損企業合併成一個虧損企業而大大減少虧損企業數；也可以將盈利企業中虧損的業務都分拆出來而大大增加虧損企業數。可是，要將整個社會裏虧損企業佔用的資產與人員減少或增加就不是一件容易的事了。這是本文不厭其煩分析企業數分佈、企業資產分佈、企業職工分佈的苦心。這些分析為中國大企業提供了也許是有史以來最詳細的透視圖。我們的分析不僅使得學者及官員可以清楚看到中國大企業發展的趨勢、潛力及問題，也給企業提供了一個可供比較的參照系。企業通過我們的分析可以瞭解所在行業或地區的龍頭企業的生產效率及盈虧狀況。

我們的分析發現，1996 至 1999 年，樣本大型工業企業的整體經營業績逐年好轉。企業的負債狀況有所改善。雖然企業資產和職工人數有向產出效率低的企業流動的不好趨勢，總體上大型企業的資產和勞動力較多地集中於產出效率好的企業。我們還發現，企業盈利有向平均利潤率回歸的趨勢。

樣本中不少行業和地區的大型企業的產出效率與盈虧狀況之間並不吻合。大體可分為三種情況：(1)產出效率高、盈虧狀況一般。這種情況的出現反映企業的經營管理能力較低，或者企業經營成本較高、尤其是工資支出過大。這種類型的行業包括煙草加工業、石油加工及煉焦業等，地區包括上海、天津等。這些行業和地區的企業要扭虧增盈，應著眼於降低經營成本、加強管理。由於資源，尤其是資本的流動主要以盈利為目的，這類企業儘管效率高，但盈利情況不理想、資本回報率低，資本會流出這些企業，長期而言對社會資源的有效配置不利。(2)產出效率低、盈虧狀況好。這種情況的出現反映企業的經營管理水平較高，或者企業經營成本低、尤其是工資支出相對較小。這種類型的行業包括飲料製造業、紡織業和造紙及紙製品業等，地區包括浙江、廣東等。(3)產出效率低、盈虧狀況尚可。這種情況的出現反映企業的經營管理水平一般，或者

企業經營成本較低、尤其是工資支出相對較小。這種類型的行業包括化學原料及化學製品製造業、化纖製造業、橡膠、塑膠製造業、有色金屬冶煉及壓延業等，地區包括江西、河南、廣西、雲南等。可以看到，這些行業大部分是傳統工業產品製造業，地區也是一些相對落後的地區，這些行業大多數生產技術一般、工人的勞動工資不高，企業處於微利狀態。這些企業可以大量吸納勞動力，對解決就業問題有很大幫助。

中國大型工業企業的效率與盈虧狀況與企業規模、行業特點、所有制等結構性因素存在緊密關聯；其中所有制與行業的影響尤其明顯。可以總結為：(1)不同所有制的企業確實存在明顯的盈利差距；其中國有企業的盈虧狀況最不理想。多數國有企業處於微利，或僅維持企業簡單生存的狀態。就大型企業而言，以資產計，大體上是，55%的企業資產僅僅處於微利狀態、30%能夠盈利良好、15%虧損；其中國有大型企業 60%的企業資產僅僅處於微利狀態、25%能夠盈利良好、15%虧損。(2)即使是大型企業，市場波動對企業效率與盈虧狀況的影響也十分明顯，企業生存的外部環境——競爭的市場環境——可說初步形成。適應市場需求、新興行業的企業可以取得較好的經營業績。

在一些行業和地區的企業資產，主要是國有企業資產有向虧損企業集中的現象，如食品加工業、化學原料及製品業等。有兩種主要情況，一種是虧損企業或資產在增加，相應地，盈利企業或資產在減少；另一種是虧損企業或資產在增加，盈利企業或資產也在增加，但虧損企業資產增加快於盈利企業。這些情況與國有企業解憂脫困的改革目標背道而馳，值得注意。

儘管所有制結構對企業效率和盈利能力具有重要影響，在市場體制不斷完善、市場漸次開放的情況下，其他結構因素，如企業所處行業的周期波動、競爭的要素市場環境、企業技術優勢等也起著重要作用。因此，必須深入、仔細、系統地研究不同類型、不同行業、不同地區企業的生產與經營狀況才能為改制、建立與維護競爭性市場環境，保持穩定的經濟發展作出有價值的分析。

本文在研究方法及內容方面都力求科學、系統、深入、細緻就是為了客觀的分析我們所面臨的一個複雜、多樣、生機勃勃的中國大企業群體。在仔細分析樣本大企業之後，我們對中國大企業的發展前景更加充滿信心。這並不是因為我們看到了一些業績很好的中國大企業，而主要是我們看到整個中國大企業群這幾年來正按經濟規律一步一步邁向市場經濟。

16 December 2000

Morning

11:30-1:00 Parallel Sessions:

Session A: Critical Issues in China's Reform and Development

1. "Economic Growth and Financial Resources Allocation in China", LIU Tung (Ball State University, USA) and LI Kui Wai (CityU)

This paper summarizes China's financial liberalization experience and examines the contributions of financial resources on economic growth during the post-reform period. Financial liberalization has resulted in the reallocation of the four sources of total investment in fixed assets: state budget appropriation, national bank loans, self-raised funds, and foreign investment. We find that the growth of GDP and industrial production are positively related to the growth of self-raised funds and foreign investment. We conclude that the use of foreign investment and funds raised by the enterprises themselves are more efficient than the government's appropriation and provision of bank loans.

2. "A Multi-Task Theory of State Enterprise Reform", BAI Chong En (HKU), David D. LI (HKUST), TAO Zhigang (HKU), and WANG Yijiang (University of Minnesota)

During transition, maintaining employment and providing a social safety net to the unemployed are important to social stability, which in turn is crucial for the productivity of the whole economy. Because independent institutions for social safety are lacking and firms with strong profit incentives have little incentives to promote social stability due to its public good nature, state-owned enterprises (SOEs) are needed to continue their role in providing social welfare. Charged with the multi-tasks of efficient production as well as social welfare provision, SOEs continue to be given low profit incentives and consequently, their financial performance continues to be poor.

3. "What are the Most Effective Measures to Reform China's State-Owned Enterprises? Ownership and Marketization versus Managerial Autonomy and Incentives", David D. LI and WU Changqi (HKUST)

Despite years of efforts, the reform of state-owned enterprises (SOE's) remains to be unfinished in almost all transition economies. There are two competing schools of thought on the SOE reform. The ownership school argues that ownership changes or privatization is the fundamental solution of the SOE issue. The management school believes that ownership changes are not essential. Instead, improving the management of SOE's is important. Utilizing observations of 680 SOE's from 1980 to 1994, the paper offers first tests of these competing schools of thought. It is found that partial ownership changes towards privatization in China's SOE's generated significant efficiency improvements, while measures of improving the management of SOEs did not, contrary to previous studies which only examined managerial reforms. Independent of ownership changes and managerial reform, intensified market competition also helped improve SOE efficiency.

Session B: Contract Theory

1. “Why Does Competition Leads to Efficient Investment?”, Y. Stephen CHIU (CUHK, jointly with Kalyan Chatterjee)

The paper studies agents' investment decisions between general and specific investments under different ownership structures in a thin, decentralized market where each agent's decision affects the decisions and welfare of other agents mainly through indirect market linkages. It focuses on the roles of competition and ownership. An investor is more likely to make specific investments when being hired than being an owner. "Excess competition among investors" makes efficient, specific investments more likely. Otherwise, inefficient, general investments and irrelevance of ownership are more likely to result. The problem in which the choice variable is investment level, instead of investment type, yields contrasting results.

2. “Breach Remedies and Holdups with Breach Inducement”, BAI Chong En (HKU, jointly with TAO Zhigang)

Recent studies have shown that the holdup problem can be solved by simple contracts enforced by specific performance (a standard breach remedy), thereby challenging the foundation of the theories of the firm (Edlin and Reichelstein, 1996). In this paper, we incorporate into the fixed-price bilateral trading contract model the possibility of one contracting party taking some action to make it more costly (or less beneficial) for the other party to perform the contract. We show that expectation damages (another standard breach remedy) discourages such breach inducement (or prevention of performance in the legal literature) whereas specific performance encourages it, which offers a possible explanation for a long-standing puzzle that the courts generally impose the former rather than the latter remedy. Furthermore, we show that, in the case of bilateral specific investments, the holdup problem can no longer be solved by simple contracts enforced with either of the two standard breach remedies.

3. “Contract Law and the Boundaries of the Firm”, Tim Tian ZHU and WANG Susheng (HKUST)

This paper develops a simple structural model of the boundaries of the firm to incorporate some of the distinct features of the Williamsonian transaction cost economics that are left out by Grossman, Hart and Moore's formal property rights theory of the firm. It builds on Williamson's (1991) idea that alternative modes of governance of transactions work out of different contract law regimes; i.e., whereas interfirm transactions may be governed by court-enforced contracts, intrafirm transactions are governed by the implicit law of forbearance. The application of forbearance doctrine to internal organization limits the use of high-powered incentive schemes within the firm and gives rise to the cost of integration. On the other hand, because hierarchy is its own court of appeal, observable but unverifiable information may be effectively used in the internal governance of the firm while it may not in contractual interfirm relations, and this difference is identified as the source of the benefits of integration. Moreover, while contract law differences are treated as an institutional constraint, such differences are shown to entail no efficiency losses.

4. “Private Contracts and Efficiency in Repeated Principal Agent Games”, Harrison CHENG (University of Southern California)

We show that when the principal's wage contracts are private information to the agent receiving it, there are moral hazard problems with the principal, who may offer secret deals to some of the agents at the expenses of the others. We give an example to show that the first best outcome is not achievable even if the principal and the agents are risk neutral. We give generic conditions under which the efficiency property can be achieved in repeated principal agent games.

Session C: Education, Training, and Employment

1. “Social Policy in the EU: The New Emphasis on Education and Training Under the Employment Chapter of the Treaty of Amsterdam”, John ADDISON (University of South Carolina)

EU social policy is at first blush a rather different animal from heretofore in that it has been recognized that healthy employment development is the precondition for achieving fair and decent social and working standards. The pursuit of often ambitious mandatory labor standards appears to have been downplayed and *coordination* to have superseded *harmonization*. The new means of coordination (via national employment plans) is benchmarking, identifying best-practice measures in employment policy and offering encouragement to member states to progressively develop their own policies in this light. The presumed goal is to secure meaningful common action in the context of institutional diversity in national labor markets – the perennial problem in EU social policy formation. The present paper offers a review of the new employment strategy with special reference to its education and training components and in the process questions whether recent developments presage a sea change in the evolution of Community social policy or are rather to be viewed as a *divertissement*.

2. “Education under the Signalling Hypothesis: Evidence from a Highly Competitive Labour Market”, WEI Xiangdong (LU, jointly with John Heywood, University of Wisconsin-Milwaukee)

This paper directly tests for differences in returns to education between the employed and self-employed in Hong Kong. Using a step-function, we find significantly smaller returns for the self-employed suggesting that in the highly competitive labor market of Hong Kong, education plays an important signaling role. Support for this role is strengthened by accounting for self-employed professionals who signal and accounting self-selection into employment status.

3. “Does It Pay to Send Your Children to Non-Public Schools”, LIU Haoming (National University of Singapore)

Although recent studies show that private school students, on average, perform better than their public school counterparts, particularly in urban areas, our understanding of the effect of private schooling on student labor market performance remains incomplete. Using a rich vein of data drawn from the Australian Longitudinal Survey of Youth, we show that private school students receive a considerable wage premium over their public school counterparts. This finding is robust to a wide array of

specifications. We also find that urban residents reap larger gains from private schooling than non-urban residents. Our results also indicate that private schooling can increase both college and high school graduation rates. Finally, our cost-benefit analysis suggests that the rate of return to private schooling is somewhat higher than the conventional market interest rate.

Session D: Risk Management and Hedging

1. “The Dynamics of Capital Allocation”, Neal STOUGHTON (University of California-Irvine)

Financial institutions are facing increased pressure to enhance shareholder value. This has led to the popularity of practical techniques such as EVA® and RAROC™. The major purpose of this study is to illustrate the interaction between incentive-based compensation and performance evaluation in a multiperiod setting. We demonstrate that while EVA can justifiably be used to incentivize managers to make better current investment decisions, performance measurement techniques such as RAROC help the firm to better assess abilities for the future. The model is applied to understand why hard position limits are employed as well as softer incentive contracts and what sort of termination standard should be used for the investment manager.

2. “The Futures Hedging under Disappointment Aversion”, Dahsiang Donald LIEN (University of Kansas)
3. “Hedging and Industry Equilibrium”, Sudipto DASGUPTA (HKUST)

Afternoon

2:00-3:30

Session A: Microeconomic Theory and Applications

1. “Dalton Transfers”, Dominique THON (Instituto Inter-Universitario de Macau) and Stein W. WALLACE (Norwegian University of Science and Technology)

This paper characterizes the set of income distributions attainable through a sequence of equalizing decentralized pairwise transfers which preserve the relative ranking of the donor and the recipient. This kind of transfer was considered by Dalton in his famous 1920 article. This paper argues that, although such transfers are often paid lip service, they do not really play any role in the existing literature on income distribution. It also argues that such transfers are nevertheless of interest in a well-defined context.

2. “The Interaction between Child Labor and Human Capital Formation”, Simon FAN (LU)

Session B: Economic and Business Ethics

1. “Do-Gooder Protests and Economic Activity: Can Mobilizing against Global Financial Powers Improve Well-Being in Developing Countries?”, Richard FREEMAN (Harvard University)
2. “Globalization, Knowledge Economy and Ethical Issues in Mainland China”, LU Xiaohe (Centre for Business Ethics Studies, Shanghai Academy of Social Sciences)
3. “The Level of Political Rights and Economic Growth: Transmission Channels And Effects”, MO Pak Hung (HKBU)

Session C: APEC and Regional Economies Studies 2

1. “Dividend Policy in Developing Countries”, W. Sean CLEARY (Saint Mary’s University)

We examine the dividend behavior of firms operating in different institutional regimes by comparing the dividend behavior of companies in eight developing countries to those of one hundred US companies over the same period. Companies in the sample of developing countries are shown to be less reluctant to increase or reduce dividends than their US counterparts. In addition, regression results suggest that current dividends are much less sensitive to past dividends and are more sensitive to current earnings for firms in developing countries. The results suggest that dividend decisions respond to informational asymmetries, agency costs, and the institutional and contracting environment.

2. “Capital Flows in Asian Economics After the Financial Crisis: A Structural Decomposition Analysis”, HUNG Wan Sing (HKBU)

Foreign direct investment (FDI) has now emerged to be the most important of private capital flows into the developing countries, followed by the portfolio flow of both bonds and equities. The developing countries were taking up 38 per cent of global FDI in 1996, compared with 17 per cent in 1990 and 26 per cent after the crisis in 1998. Particularly, the South and East Asian were accounted for 22 per cent of the global FDI in 1996 and 12 per cent in 1998, while the Asian crisis-5 countries experienced 63 and -30 billions of U. S. Dollars net private capital flows in 1996 and in 1998, respectively. (United Nation, 1996, 1999 and IMF, 1999) The above facts have shown that there might be a structural change of the international capital flow to both developing and Asian countries throughout the crisis.

In the literature, the causes of capital inflows, no matter they are mainly driven by domestic or external factors, are quite controversial. Kim (2000) supported that foreign reasons, rather than domestic factors, are comparatively important in explaining the resurgence in capital movement. Fernandez-Arias (1996) found that the capital inflows of the estimated developing countries are 'pushed' by the foreign factors. Calvo et al. (1993) also used the external factors to study the capital inflows only. Hence, the foreign factors of the capital flows could not be ignored. However, Chuhan et al. (1998) postulated that not only global factors, but also country-specific factors play an important role in determining various components of capital flows. Montiel and Reinhart (1999) gauged that the short term flows of capital does not seem to respond to the fluctuation of the international interest rates. While Sarno and

Taylor (1999) discovered that the importance varies in permanent and temporary components of capital flows to Latin American and Asian countries.

In this paper, we will empirically investigate the causes of capital flows in eight selected East Asian economies using the structural VAR model and the variance decomposition analysis to identify the importance of domestic and external factors. Moreover, the impulse response function will be applied to review the shocks and effects of internal and external factors over the period from 1990 to 1999. Both domestic and foreign factors, such as domestic potential output, domestic inflation, money supply, terms of trade, current account as well as foreign output and interest rates, will be included in our structural estimation, of which the capital flows are greatly influenced. The empirical findings will be useful for researchers and policy makers to further understand the reasons of capital inflows throughout the Asian crisis.

3. “An Information-based Model of Twin Crises, with an Application to the East Asian Crisis”, SHI Jianhuai (Peking University)

Because the recent emerging market currency crises had the simultaneous of banking crises, a full understanding of the crises requires an explicit modeling of the banking sector with firm microeconomic foundations. This paper develops one such model of twin crises by employing the information-based bank run models, thus gives an endogenous explanation of how fundamental weakness cause the twin crises and how banking and currency crises interact with each others. The model captures the essential features of the recent emerging market crises, and is particularly consistent with the recent East Asian experience.

Session D: Monetary and Exchange Rate Regimes: What have We Learnt?

1. “The Forward Bias: Is It Risk?”, Kerk L. PHILLIPS (Brigham Young University)

This paper examines the bias of the forward exchange rate. We show that the bias implies a profit-making opportunity for risk-neutral speculators. We further show that the excess returns from a speculative strategy implied by the bias are positive in many cases. We develop a model to deliver some factors which might account for the bias. Even when we adjust our estimation to price the riskiness of this strategy, however, we find that it yields positive abnormal returns. Our findings are consistent with models that rely on systematic expectational errors or with a peso problem.

2. “Currency Substitution between Hong Kong Dollar and Renminbi in South China”, Kenneth S. CHAN (McMaster University)

This paper estimates the demand for the Hong Kong currency circulating in the Guangdong Province of China and Macau. The amount of Hong Kong dollars circulating in the Guangdong (Macau) region is reckoned to be 7.4 (3.2) percent of the total amount issued in Hong Kong. The estimated coefficients in the currency demand equation suggest that the Hong Kong currency in Guangdong is used mainly for transactions. Therefore, in spite of strong evidence of currency substitution of the Renminbi with the Hong Kong Dollar, its impact on the exchange rate and on the international reserves of Hong Kong during currency crisis should be minimal.

3. “The Real Effective Exchange Rate of China Since 1970s”, HUANG Guobo (People's Bank of China and CityU)
4. “Exchange Rate Policy of RMB and its Future Trend”, ZHAO Zhijun (Chinese Academy of Social Science)

4:00-5:30

Session A: Labour / Family Economics

1. “Why Do Indian Children Work, and Is It Bad for Them?”, Alessandro CIGNO (University of Florence)

The causes and consequences of child labour are examined theoretically and empirically within a household decision framework, with endogenous fertility and mortality. The data come from a nationally representative survey of Indian rural households. The complex interactions uncovered by the analysis suggest that mere prohibition of child labour, or the imposition of school attendance, could make things worse, and would be difficult to enforce. Beneficially reducing child labour requires changing the economic environment to which the work of children constitutes, in the great majority of cases, the rational response. Suitable policies include reductions in the cost of attending school, and public health improvements. The effects of these policies go far beyond direct impacts. Health policies have favourable indirect repercussions on the school attendance, demand for educational material, and labour participation of children. Educational policies have favourable indirect repercussions on the nutritional status of children. Both types of policy discourage fertility. Income re-distribution may be helpful, but land re-distribution could be counterproductive.

2. “Geographical Wage Differentials, Welfare Benefits, and Life Cycle Migration Decisions”, James WALKER (University of Wisconsin at Madison)

Geographical wage differences are large and persistent, despite large migration flows. The proposed research analyzes individual migration decisions to migrate as expected lifetime utility maximizing responses to express concerns that these differences might create “welfare magnets” in some locations. We analyze the interaction of wages and welfare benefits in determining migration decisions of respondents of the National Longitudinal Survey of Youth, 1979 Cohort, with particular attention to unskilled workers who have limited access to capital markets.

We build an economic model of individual migration decisions, and estimate it on panel data. We model individual decisions to migrate as a job search problem in which welfare benefits act as a floor, insuring workers against bad job search outcomes. A worker can draw a wage only by visiting a location, thereby incurring a moving cost. Locations are distinguished by known differences in mean wages, amenity values and alternative income sources. A worker starts the life cycle in some home location and must determine the optimal sequence of moves. There is a two-dimensional ranking of locations, *ex ante*: some places have high mean wages, and others have attractive fallback options (both adjusted for amenity values).

The decision problem is too complicated to be solved analytically, though for some special cases the optimal decision rule can be characterized by using the well-known

Gittins index. For the general case, we follow Rust (1994) and use a discrete approximation to solve the model numerically and assume the iid unobserved state generates the stochastic model of full rank and generates closed form solutions for the conditional choice probabilities. We adopt a multi-step estimation procedure (again developed by Rust 1994) that estimates parameters of the state transition probabilities in the first step while conditioning on these estimates in the next step to estimate parameters of preferences and costs that satisfy the Bellman equation characterizing the optimal decision rule.

3. “High Skill Immigration: Some Lessons from Israel”, Yoram WEISS (Tel Aviv University)

This paper draws some lessons from recent mass immigration of highly skilled immigrants from the USSR to Israel. One important lesson is that the adjustment process for highly skilled immigrants can be quite long and extend throughout their life time. This implies a substantial loss of skills, in present value terms. The expected present value of the difference between actual earnings and potential earnings is approximately 250,000 US Dollars, which constitutes about 57 percent of the present value of potential earnings over the remaining working life (about 25 years). Another important lesson is that even a large wave of immigrants can be absorbed in the labor market without marked effect on wages or employment of natives. This is a consequence of two related trends, entry of additional capital and gradual entry into high skill occupations, that together kept the aggregate capital labor ratio constant, if labor is correctly measured.

4. “An Empirical Analysis of Assortative Mating: Evidence from Taiwan”, ZHANG Junsen (CUHK)

Almost all studies, theoretical or empirical, of who marries whom have analyzed mating in one trait only. In this paper I present an empirical model of assortative mating in several traits and estimated multiple mating functions using data from Taiwan. Three mating functions for age at marriage, education, and marriage transfers were estimated for men and women respectively, allowing for endogeneity of right-hand-side traits due to unobservable traits. Positive assortative mating on complementary traits is derived from a single-trait model, but it is found to be true for age, education, or marriage transfers while controlling for other traits. Marriage age of women is negatively related to brideprices but that of men has no negative effect on dowries.

There is some evidence that dowry and brideprice may be related to unobserved attractiveness of women and men. Cross-equation residual correlations support the hypothesis that more attractive women marry earlier, receive less schooling and dowries, and marry more schooled men. Similarly, there is evidence that more attractive men receive less schooling and brideprice from their parents and marry women with higher education or dowries. It is also found that parents' wealth has important and direct effects on sons' marital offers, suggesting the existence of hypergamy in a Chinese society. Directions for further work are suggested.

Session B: Digital Economy and E-Commerce

1. “Bargaining over the Internet: Issues and Implications”, T.P. LIANG and D.N. CHEN (National Sun Yat-sen University, Taiwan)
2. “Another Understanding of the China Information Economy in the New Century”, TANG Shukun and YANG Jiang (China University of Science and Technology)

It is Information revolution and the Internet technology that produce the “New Economy”. At a time when the old economic rules were pushed almost to collapse and a lot of traditional industries were considered to be falling down to the “Sunset Industry”, some new people and new corporations make the “New Economy” full up with temptation and enthusiasm by branding the old enterprises into the information service industry that virtually consists of new firms. When the web flat comes into being and ICP and E-business play into practical phase, however, quite a many passionate websites that absorbed the venture capital and got high market value but failed to make profit fell into severe crises. As a matter of fact, the NASDAQ indices have been sliding sharply. Therefore we have to take a new look at the “New Economy” and summaries our opinions as following:

- Although it is a must for us to transform the traditional economy to the information economy, is it necessarily to do that at sacrifice of many traditional firms and operation network? Does the “New Economy” mean an economy system that needs to be set up totally from a new start?
- Can we think of the course that is “information revolution—information conception enlightening—information flat construction” as the first phase while turning the information content into commodity and the traditional matter flow into network the second, which brings new understanding of the confluence of the “New Economy ” and traditional industries?
- The successful merging of AOL and Times Wannar signals a stable model of the “New Economy” and the most advanced correction to the information economy tide.
- The mainland of China is under a way that is quite different from that of the western countries’ development and ordered transition, i.e., from agricultural economy, industrial economy to the information economy. The reason is that the rapid transition of China from an agricultural planning economy into the full-grown industrial, market-based information economy has been resulting in the complicated muti-fold economy structure. Therefore China has to choose its own road toward the new economy carefully without time to develop orderly.
- A successful profitable but very traditional E-Business case ---- Shanghai Meilin Zhengguanghe and 85818 net. A developing plan of Chinese model ---- Beijing Capital Steel Company will plan to invest 10 billion Yuan RMB in the network and information service. Gan Zizhao, Head of the department, Associate with China Book Publish company will plan to build the National E-Business Panel of Book publish.
- In the Mainland China, The New economy and New E-Business of early this century will be a complex model. Companies with complex elements such as Haier, Legend, Capital Steel and Shanghai Meilin together will constitute the New Economy Building of China.

The Conclusion:

When the International New Economy came to the second phase, the New Economy and E-Business of China can't develop without the traditional successful company. Otherwise, we can't agglomerate the basic energy and network resource of the New Economy, the E-business will be developed to a kind of Muster Business or Local Business, the New Economy will be developed to minority business.

3. "Pricing in the Online Retail Markets: From Books, CDs, Videos, to DVDs", TANG Fang Fang (Nanyang Business School, Nanyang Technological University, Singapore)

Empirical analysis from several recent studies has shown mixed results on the "frictionless market" hypothesis, claimed by many, about Internet retailing compared to conventional channels. This study takes a different approach to deal with this paradox of online retailing.

Focusing on homogenous products (books, CDs, DVDs and videotapes), we use the data sets collected in 1999 and 2000, to compare the pricing behavior of major online branches of traditional retailers with top specialized Internet retailers. We find that prices by the pure Internet players are significantly lower than prices by the hybrids online. Further, price changes by both types are few but adjustment magnitudes are large, indicating that menu cost is not as negligible as many claim for the online markets. Price dispersion seems rather large by both types and statistic evidence shows that it is significantly lower among the dot coms than among the hybrids online.

We conclude that these online retail markets are far from perfectly competitive or frictionless. Market power and offline pricing behavior continue to influence the online competition.

Session C: Current Issues of Chinese Economy

1. "FDI and Linkages: China at the Dawn of the WTO Accession", LIU Minquan (Hopkins-Nanjing Center, China), XU Luodan (Zhongshan University) & LIU Liu (Hopkins-Nanjing Center, China)

China's accession to the WTO is likely to have profound impacts on the inward foreign investment into the country. Given the important contributions such investment makes to a host economy, it is important to assess such impacts. This paper uses firm-level data from a survey of 405 FDI firms in Guangdong province in China for year 1997. It studies important linkage characteristics of four groups of firms (Overseas Chinese, Japan, Europe, and US), and identifies the investment strategies adopted by each of these groups. A study of their investment strategies provides the basis for a tentative assessment of the effect of the membership on inward investment from these sources. However, the profound social and economic regime changes expected to be brought about by the membership may well mean a change in MNEs' investment strategies. This paper makes a limited attempt to assess the impact of the membership assuming an absence of investment strategy changes.

2. "Economic Reforms and State Sector Bankruptcy in China", Carsten HOLZ (HKUST)

The decline in fiscal revenues, the extent of bad loans in the state banks and the losses in the state-owned enterprises all reflect financial difficulties in different parts

of the state sector. Viewing the state sector in total by consolidating the balance sheet of the government, state banks and state-owned enterprises reveals that while in 1978 state sector net worth was almost equivalent to state sector assets, by 1997 state liabilities to households threatened to exceed state sector assets. As state sector net worth turns negative, the Chinese state is bankrupt. The deterioration in state sector net worth came about through numerous channels, four of which are explored in more detail. If inflating away the nominal household claims on state sector assets is, as past experience suggests, not an option, then households de facto hold claims to the aggregate physical assets of the state. The deterioration in state net worth thus reflects a quasi-privatization where the state retains the right to determine the use of the physical assets, and pays for this right with excessive returns to household claims.

3. “China Coping with the Depreciation of RMB: Its Impacts, Policies and Measures”, HUANG Weiping (Renmin University of China)

The financial crisis in Eastern Asian countries was the most significant events in the World economy during the period of 1997-1998. This crisis adjusted the pattern and structure of the World economy and made the financial issues always hit the headline of the News everywhere in the World, and would leave its influences to the end of this Century and even the beginning of the next Century. During the crisis, caused by the economic difficulties, the currencies in Eastern Asian countries devaluated seriously, for example, Indonesian Rupiah depreciated almost 83.6%, Thailand Baht depreciated 42%, Korean Won devaluated 35.3%, and Singapore Dollar depreciated 15.4% from July 1997 - June 1998(International Trade news, August 12,1998), and most of the Economies in the region got the negative growth in 1998. In such a situation, China was almost the only economy in the region to be free from the shock in the light of prudential and gradual opening of the finance to the rest of the World. But since China is one of the largest and important economies in the region and the World, and its role to make stable situation in this region during the crisis was also very important, in this case there were many different comments and ideas upon China in different ways, the most popular was: whether RMB, the China's Currency depreciate or not under the pressure from other economies' devaluation? Even today, my answer is, in the short and middle term (for example by the middle of the year 2001) RMB, the Chinese currency has no reason to be devaluated, and in a long run, RMB, the Chinese currency has no reason not to keep the flexibility in the way of development and in the change of World Economy.

Most of the economists consider, if the currency of China, RMB was depreciated during that time, the Chinese economy would be hurt for the reason of increase of cost of import and the debt service of China, while the export could not be promoted by different reasons in the World, on the other hand, with the depreciation of Chinese currency at that time during 1997-1998, the "new" financial crisis might re-hit the Asian region and cause the serious economic crisis in the region again. With China's insisting on no-depreciation of the currency, economists of the World appreciated the policy held by China but also believe which would hurt the Chinese economic development, China should take some new policies to cope with economic problem (Huang and Zhu, Strategy and Management, Vol.4, 1998). The followings are the outline of the paper:

From the way of analysis of the supply and demand of the foreign exchange in Chinese market, RMB, currency of China, was with its basis of stability

Financial crisis in Eastern Asian region kept some possibility of re-break -out, and the impact of the crisis on the world economy was continuously developing, with the uncertainties, depreciation of RMB facing unclear effects and results to china and the world economy during 1997-1998

Exchange rate of RMB was set by the dynamic of the market in China, an artificial intervention would produce the result of RMB depreciation in short term, but in long run, the strength of the market would adjust the rate to become effective

The rate changing (appreciation and depreciation) of RMB, Chinese currency, would be following with the general direction of economic development, and reflecting the need of economic development of china first, but to consider depreciation or appreciation's influences upon on other economies than china

Whether or not RMB depreciation would be decided by china's political and economic needs, as a developing country, China neither had necessary nor be qualified to maintain exchange rate unchanged under some certain circumstances

Frankly, depreciation of East Asian economies' currencies would give the pressure on China's export, but the pressure far less than the shrink of import demand of that region caused by the financial crisis in 1997-1998

1. With the low inflation and high growth rate, the supply condition lays a very good foundation for china's export growth at that time
2. China's policy alternatives would give the help in promoting export
3. Negative impact of other economies devaluation of their currencies upon Chinese export mainly came from the shrink of the demand of East Asian for import, with the return of the development in the region, china's export would soaring up again

Trade competition is a comprehensive term which comes from different factors and elements, although competition capacity of the products from other east Asian economies increased, it is not so easy to drive out Chinese products from her traditional market, especially from the developed market

1. Depreciation of other East Asian economies' currencies during 1997-1998 was forced to do, and as the result of financial crisis, which would be different from the positive depreciation as a policy instrument to promote export
2. With the enclave feature, some Southeast Asian production was one part of the overall system of multinational corporations (MNC), depreciation would not make MNC redesign their strategy and shift more production into this region
3. The tradition importers of East Asian economies facing the unstable supply since the financial crisis broken , they had to shift their sources to the more safety supply
4. Most of the comparative advantage of china was relied on the low labor cost

The financial crisis in Eastern Asian region combined with the situation of production has been greater than demand in China these years, and the uncertainty of the effects of reform gave the negative impact on the strategy of economic growth of China recently

Chinese government took both monetary and fiscal policy to cope with the economic difficulty in the direction of increasing domestic demand while keeping the increase of export

Session D: Exchange Rates and Banking

1. “Volatility of Macroeconomic Fundamentals and the Exchange Rate Regime”, HO Lok Sang and Jimmy RAN (LU)
2. “The Impact of the Hi-tech Industry on the Banking Sector in Guangdong”, MA Yue (LU)
3. “A Comparative Study of the Industrial Restructuring and its Impact on the Economic Growth in the Major Cities of the Delta Region of the Yangtze River”, LU Genyao (Economic Institute of Economic Planning Committee of Ning-Bo City)
長江三角洲主要城市產業結構變動及對經濟增長影響的比較研究 陸根堯

本文運用結構變化系數，研究了長江三角洲主要城市產業結構變動的特點和數型；並建立了一個經濟增長的部門分解模型，定量分析和研究了各產業部門對經濟增長的影響和作用。

4. “Information Effects in Indian Foreign Exchange Market”, N.R. BHANUMURTHY (Institute of Economic Growth, University Enclave, India)