HKUST IEMS

INSTITUTE FOR EMERGING MARKET STUDIES

FALL 2017 NEWSLETTER

Belt and Road: NEW WORLD ORDER

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DIRECTOR'S MESSAGE

China's Belt and Road Initiative may play a transformative role in the future development of China, Hong Kong, and much of the world. In 2017, HKUST IEMS began a multiyear research program on China's Belt and Road Initiative with support from the Hong Kong government. The Institute also co-organized a lunch forum with notable speakers from China, Hong Kong, and Russia on "One Belt One Road: Global Perspectives" during the Chinese government's Belt and Road summit in May in Beijing. The Belt and Road will feature prominently in future IEMS research and activities, as we aim to be a thought leader that provides evidence-based insights on this important issue. This effort also is part of a new China Initiative that IEMS launched this spring with the Institute for Public Policy to address a broad range of economic and policy issues in China.

The first half of 2017 was an extremely active one for the Institute. We co-sponsored events to launch two notable reports on Asian infrastructure needs (by the Asian Development Bank) and on China's economic reform priorities (by the OECD), and organized academic and business seminars addressing a range of topics, including robots and future of employment, innovation in China and Korea, microfinance in India, consumption habits of upwardly mobile consumers in emerging markets, and reverse brain drain. The Institute also awarded seven new competitive research grants and welcomed 5 new Faculty Associates.

IEMS WORKS ON THE BELT AND ROAD

HKUST IEMS has been awarded a competitive research grant of more than HKD 3 million from the Hong Kong SAR Government under the Strategic Public Policy Research (SPPR) Scheme after a competitive review. This 3-year interdisciplinary research project on "Trade and Investment under One Belt One Road and Implications for Hong Kong" involves 6 IEMS Faculty Associates and a dedicated team of researchers.

The researchers hope that their studies will provide valuable evidence-based insights that can help the Hong Kong SAR government to design optimal trade and investment policies to bolster Hong Kong's future development.

Led by **Albert Park**, Director of the Institute, the research team includes Faculty Associates **Edwin Lai** (Economics), **Alicia Garcia Herrero** (Economics), **Abhiroop Mukherjee** (Finance), **Naubahar Sharif** and **Barry Sautman** both of Social Science.

The project is composed of five inter-related studies addressing the following topics:

- how the Belt and Road Initiative will affect international trade flows, especially for China, Hong Kong, and the Belt and Road countries;
- how increased trade from the initiative may increase the use of the Renminbi in trade settlement, contributing to its internationalization;
- how the initiative's investments are implemented and their development impacts based on country case studies (including Pakistan, Kenya, Ethiopia, Sri Lanka, and Russia);
- the development impacts of infrastructure projects as revealed by a road building project in India;
- and the potential for Hong Kong financial institutions to provide capital and financial services for OBOR investments.

Visit http://iems.ust.hk/obor for IEMS publications, events, media coverage and video on the Belt and Road.

BELT AND ROAD: NEW WORLD ORDER

Experts from China, Russia and Hong Kong agree that the Belt and Road Initiative (BRI) will have major ramifications for countries around the globe, especially those in Eurasia and the Asia-Pacific, but differ on the Initiative's ability to transform development in OBOR economies.

Justin Lin

In an IEMS forum during China's Belt and Road Summit in Beijing, Prof. **Justin Lin** (林毅夫), former Chief Economist of the World Bank and current Director of the Center for New Structural Economics at Peking University, strikes an optimistic tone, pointing out that China can provide developing countries not just with financing but also with the technology and know-how that led to China's own development success. Given rising wages in China, many Chinese firms are also poised to make investments that move labor-intensive production to OBOR countries.

Alexey Kalinin, Director of the Institute for Emerging Market Studies at the Moscow School of Management SKOLKOVO, takes a more balanced stance in describing the impact OBOR may have on countries in Central Asia and the Caucasus. He emphasizes that countries in the region are highly diverse politically, ranging from liberal democracies to stringent autocracies, and also economically, especially in terms of energy resources. Alexey recognizes that the Belt and Road Initiative provides tremendous opportunity, but warns that successful investments will require awareness of each local context.

Alexey Kalinin

Alicia Garcia-Herrero

"Who will pay for it?", asks Prof. **Alicia Garcia-Herrero**, Chief Economist (Asia Pac.) at NATIXIS and HKUST IEMS Faculty Associate. The infrastructure needs of OBOR countries are so great, that they cannot possibly be financed adequately by China and the multilateral development banks. If the potential of OBOR is to be fully realized, much more progress needs to be made in devising new global financing arrangements that involve major commercial banks and public-private partnerships. Hong Kong banks could play a leading role, but only if they are proactive in responding to the opportunities of OBOR.

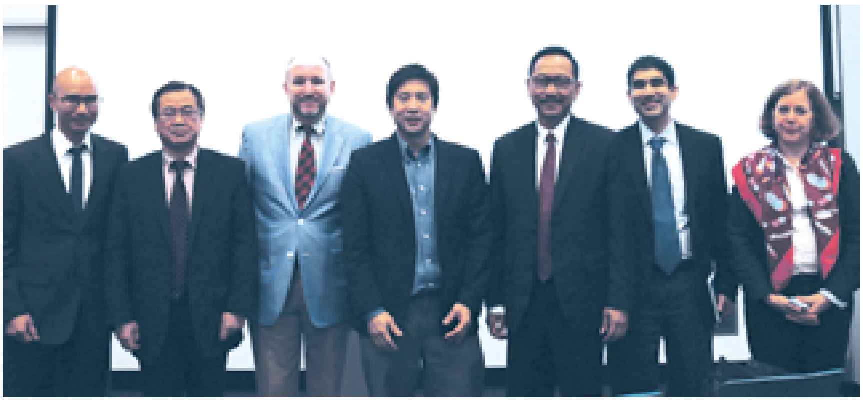
Meanwhile in his IEMS seminar at HKUST, Prof **Mingkang Liu** (劉明康), former Chairman of the China Banking Regulatory Commission (CBRC) and Monetary Policy Committee Member of the People's Bank of China, praised China's potential to lead the Central Asian region's economic development, as long as implementation of the Belt and Road is "clean, green and transparent." Striking a cautionary note, Prof Liu explains how each Belt and Road country has unique needs, the risk of short-termism, as well as the advantages Hong Kong possesses in finance, logistics, access of information, talent and legal implementation.

Mingkang Liu

Find out more about Prof Liu Mingkang's academic seminar, "How to Better Our Implementation of the Initiative 'One Belt One Road'", at http://iems.ust.hk/liumk

The "One Belt One Road: Global Perspectives" luncheon was co-sponsored by the Center for New Structural Economics at Peking University and Moscow School of Management SKOLKOVO and held on May 16, 2017 at Beijing. Video recording of the event is available at http://iems.ust.hk/oborglobal

FILLING THE GAPS IN ASIA'S INFRASTRUCTURE NEEDS



Key speakers from Asian Development Bank (ADB) presented findings of a newly published report, "Meeting Asia's Infrastructure Needs," detailing solutions for maintaining rapid growth and addressing the challenges of demographic change, increased urbanization, growing inequality, and the threat of climate change. IEMS Faculty Associates discussed the report's findings.

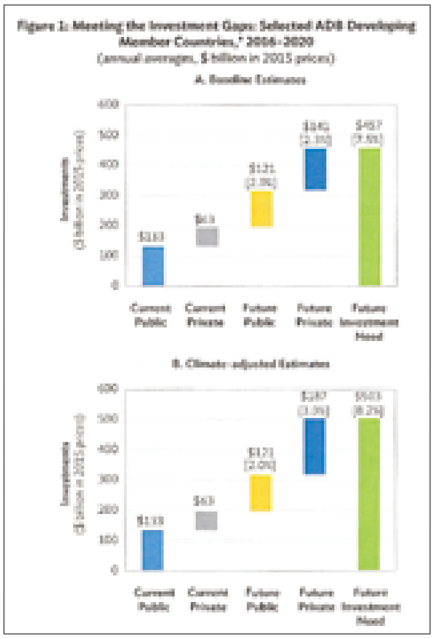
The ADB reports that emerging Asia needs a whopping $26 trillion in infrastructure by 2030 to meet ever-growing economic needs. The report more than triples a 2009 report's estimate that USD8 trillion would be needed. The new estimates include climate mitigation and proofing costs, including renewable energy, smart grids and energy efficiency, but also transportation as well as measures against rising sea levels and extreme weather.

Bambang Susantono, ADB's Vice-President for Knowledge Management and Sustainable Development, reminded attendees that in addition to developing infrastructure, increased investment was also needed to reduce the impact of climate change. Meeting infrastructure needs is tied to the UN's Sustainable Development Goals and other climate-change agreements. Expanding on the report, Mr Susantono advises developing countries to use both private and public sector money, stressing the link between infrastructure investment and economic development. He adds that this includes better implementation by governments in addition to ADB loans and advice.

Juzhong Zhuang, Deputy Chief Economist of ADB's Economic Research and Regional Cooperation Department (ERCD), explained that despite high levels of infrastructure investment in the Asia-Pacific, there are still large gaps between the quantity and quality of infrastructure projects. The gap in quality involves both public and private investment in four major sectors: energy, transport, water and sanitation, and telecommunications.

Meanwhile, IEMS Faculty Associate **Prof David Cook** provided a macroeconomic analysis of ADB's figures, confirming the need for increased capital investment in the Asia-Pacific. Similarly, Faculty Associate **Dr Alicia Garcia-Herrero** commented on the report's forecasted investment needs and the role of banks and capital markets. She suggests pension reforms and using originate-to-distribute models to finance the region's infrastructure development.

Speakers reminded attendees that Multinational Development Banks (MDBs) will play pivotal roles in financing the solution, encouraging cooperation in the region and supporting the planning and implementation of reforms. With proper financing, the report recommends three sets of policy actions: public-sector fiscal reform, better planning and implementation of reforms, and creating a better environment for private firms to participate.



Source: ADB (2016); Country sources; Investment and Capital Stock Dataset, 1960-2015, IMF; Private Participation in Infrastructure Database, World Bank; World Bank (2015a and 2015b); World Development Indicators, World Bank; ADB estimates.

Joint Seminar with Asian Development Bank (2017.02.28)
Find out more at iems.ust.hk/adb

ROBOTS AND JOBS

In his IEMS&IPP-EY Emerging Markets Insights presentation, **Richard Freeman** (Harvard) asks business leaders if we need to re-examine our ideas of work and income given the impending robotics revolution.

Prof Freeman points out that our worries of being replaced by machines are not new. The Great Depression saw a similar panic sweep the world after the industrial revolution. The 1960s introduced fear of automation-driven job-loss and the dot-com boom also created concern about "The End of Work."

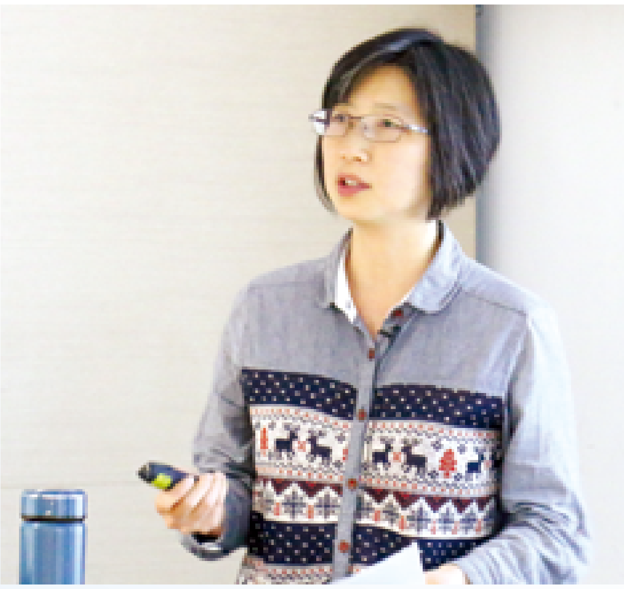
Yet this wave, according to Freeman, is different. Robots and artificial intelligence (AI) now represent a real challenge to human abilities as it is not clear where our comparative advantages versus machines lie.

China is predicted to account for 39% of the robot market by 2019, but "what will life look like in a world without work?" Prof Freeman believes Bill Gate's recommendation to simply tax robot-owners is "not feasible, and not desirable either." Instead, like the advent of land-ownership, the question we need to ask ourselves is "who owns the robots?" He recommends reforms that would give workers greater direct ownership shares in their companies.

Meanwhile, **Huang Yu** (HKUST), whose work focuses on Dongguan, China's manufacturing hub in the Pearl River Delta, identifies three aspects which encourages managers to upgrade and purchase robots: improve productivity, upgrade quality and develop own brands. While industrial upgrading has desirable effects for factory owners, the workers are less optimistic argues Huang. Despite safer working environments, workers report feeling disposable and lacking high-tech skills training.

The Chinese government launched the "made in China 2025" plan and in response, Dongguan, Shenzhen and Foshan launched industrial upgrading policies, reflecting a larger national initiative to move manufacturing from low-end, labour-intensive, low value-added to high-end intelligent manufacturing. However, this plan views labour as a cost to be overcome, but has not assessed the mid- and long-term effect on workers—such as deskilling and unemployment.

Whether high-tech manufacturing can lead to high-end products is not only a technical issue, but also an issue of human capital. With a looming shortage of skilled labour, firms will be hard-pressed to improve the quality of their products or develop their own brand. To this end, Huang advises that policy-makers need to look beyond upgrading physical capital, but also consider the well-being of workers. Specifically, Huang advises that governments should consider the upskilling and job-retraining of laid-off workers.



IEMS&IPP-EY Emerging Markets Insights Presentation by Prof Richard Freeman (Harvard) 2017.04.16
Find out more about Prof Freeman's seminar at http://iems.ust.hk/robolution

IEMS Academic Seminar by Dr Huang Hu (HKUST) "Can Robots Save Dongguan? — Barriers and Incentives to Automation in World's Factory" 2017.03.16
Find out more about Huang Yu's seminar at http://iems.ust.hk/huangyu

CHINA'S ECONOMIC PROSPECTS

The OECD launches its new 2017 Economic Survey of China at an event cosponsored by IEMS and the French Centre for Research on Contemporary China (CEFC). In the report, OECD economists assess attempts to reinvigorate the country's economy in light of slowing growth. Last conducted in 2015, the report also gives policy recommendations for achieving higher-quality growth. This year's recommendations center around supporting innovation and reforming China's massive state-owned sector. The report also argues that a shift away from energy-intensive production is needed for sustainable growth, with sustainability a key goal of the government's most recent five-year plan. In addition, the study finds room for improvement in China's education, healthcare and pension systems. Finally, better social security and a tougher tax schedule is needed for social inclusiveness.

Margit Molnar, OECD's Chief China Economist, finds it surprising that despite more investment in innovation, rising research output is having less impact on productivity. The failure to convert research efforts into commercially-viable activity comes at a time when China is spending around 2% of GDP on R&D – far more than comparable developing countries but still short of the US or Japan. Molnar suspects the divergence is caused by a lack of quality and relevance in new patents. Speaking of her findings on patenting activity in China, Molnar remarks that "the utilization rate [of new patents] is relatively low especially in the case of patents registered by universities or research institutes, it's much lower than in other countries." Speculating as to why, Molnar adds that "the [university's] performance evaluation system" encourages researchers to "register a large number of patents" with little attention paid to whether those patents are eventually commercialized.

When asked for key recommendations, **Vincent Koen**, OECD's Head of Division, cautions that "there's not one single, silver bullet for China." Koen believes that the protection of intellectual property rights needs strengthening – "fraudulent behavior has to be prosecuted more and more forcefully." Additionally, Koen remarks that there is "room for considerable improvement for SOE's corporate governance." Meanwhile, Koen suggests tax reform, to make the tax schedule "more redistributive." "Inequality is high in China, and the social security contributions setup, and the personal income taxation set-up, and the property taxation setup are not adequate to mitigate inequalities." Koen also suggests that China's retirement age, and hence pensionable age, needs to be raised. "People in China retire at a ridiculously young age. The life expectancy in good health increases, but they still stop working at 55 for women or 60 for men, which is too young." Koen was also skeptical of China's Hukou residential registration system, commenting that reform "has to be pushed further." Finally, Koen highlights recommendations from the study for green growth and the enforcement of environmental legislation.

The event was co-organized by the IEMS with the French Centre for Research on Contemporary China (CEFC), as part of the OECD's release of the 2017 Economic Survey of China.

OECD China Development Report
2017.03.24
Find out more at http://iems.ust.hk/oecd

CHINA'S CHALLENGES TO INDIGENOUS INNOVATION

In his Distinguished Lecture, co-organized by IEMS and the HKUST Leadership and Public Policy Program (LAPP), **Dr Roger Stough** (George Mason University) remarks that China's huge economic growth was built on several key advantages. His lecture, "Innovation and Development in China and the Pearl River Delta explains how China developed rapidly by exploiting the demographic dividend, opening-up the economy and successfully imitating advanced economies.

With slowing growth rates since the 2008 global financial crisis, China has been rushing to move up the global value chain and adopt an innovation driven model. However, without a strong ability to self-innovate, China cannot sustain the rapid economic growth and achieve the societal outcomes it wants. In particular, some Chinese regions around Shanghai and the Pearl River Delta have showed limited success at indigenous innovation. According to Stough, there are ten main barriers to innovation in China. These barriers range from economic factors, such as education and investment, to civic factors such as governance, corruption and institutional factors.

Praising various innovation parks around China as well as here in Hong Kong, Stough recommends that Hong Kong pay close attention to mega-city evolution in Guangdong province. He suggests that a committee be created to investigate and oversee Hong Kong's integration into the greater PRD economy.

Meanwhile in a different Distinguished Lecture, co-organized by IEMS and HKUST Institute for Advanced Studies (IAS), **Richard Freeman** (Harvard) examines the recent surge in Chinese patenting activity.

In the 2000's, China moved from being a limited contributor to the world patent output to become the number one patent producing country in the world, with the lion's share of patenting happening since 2005.

Prof Freeman explores the extent of which this surge in innovation activity constitutes new breakthroughs or is merely China playing catch-up. His study finds that Chinese patents are not of the same quality as ones from the US or other advanced countries. But so great is the raw output of patents that China is making a real contribution to the global knowledge base.

Moreover, Chinese patents increasingly target the same key technologies that American patents do. China's intention is clear: they seek to catch up and surpass the world's technology leader. "A chunk of the patents are not very useful, but there are enough that are good and useful that it shows up in the company's sales and production… But this is true in a lot of countries, many patents just don't end up producing a product that can be sold in the market."

In periods and places where Chinese firms are patenting the most, Prof Freeman observes a measurable increase in economic output. While the large policy-push for patents has created some bogus patents, overall patenting activity is still contributing to the growth of the Chinese economy.

LAPP and IAS Distinguished Lectures, co-organized with the IEMS, Dr Stough "Innovation and Development in China and the Pearl River Delta" 2017.05.05
Find out more about Dr Stough's Distinguished Lecutre at
http://iems.ust.hk/stough

Prof Freeman "China's Patent Explosion" 2017.16.05
Find out more about Prof Freeman's Distinguished Lecture at
http://iems.ust.hk/china-patent

BREAKING THE GROWTH BOTTLENECK FOR CHINA

In her IEMS Academic Seminar, **Sandra Poncet** (University of Paris 1) explores whether the entrance of City Commercial Banks (CCBs) in China have relaxed the credit constraints faced by private firms. Drawing from her study spanning 260 cities between 1997 and 2012, Prof Poncet shows that CCBs have helped some private firms but overall have yet to deliver on their promise to provide greater commercial lending. Loan allocation in China is heavily influenced by the state, inhibiting the competitiveness of the Chinese business environment.

Previously, the lack of private sector lending put local firms at a disadvantage compared to their foreign counterparts. Dr Poncet finds that CCBs have helped close the gap, enabling private firms in China to develop exports, particularly in sectors overlooked by big, state-owned lenders. However, lending-bias when compared to state-owned firms continues to grow disrupting China's growth potential. Private firms absorb most new workers entering the labor force and boast export performance five times larger than their larger, state-owned cousins, making the private sector a key player for supporting employment rates. However, state-owned enterprises continue to dominate borrowing in China, which is missing out on the high potential return on investment offered by private firms.

Relaxing the credit constraints on private firms is important if China wishes to maintain its pace of growth. Poncet recommends that CCBs first strive towards independent corporate governance.

In an ongoing study, **Xiaobo Zhang** (Peking University) explores the economic impact of collusion in political and business spheres. The study looks at officials' corruption trails by examining cross-regional investment flows associated with their transfers of officials from one city to another.

Zhang finds that in China, bureaucratic rotations and promotions across jurisdictions are common practice. "When officials are transferred to new places, it is hard for them to immediately establish trust with local businesses. Consequently, they tend to bring their trusted businessmen along with them." In this practice, Zhang observes an immediate spike in investment flow—particularly in real estate and construction—driven by collusion rather than by better information.

Firms enjoy greater profitability when under the "umbrella" of connected officials, but are more likely to shut down after the official leaves office. Remarking on the implications of his findings, Zhang adds that "collusion crowds out new business and dampens innovations of existing firms."

Meanwhile, IEMS Researcher **Ma Xiang** (HKUST) examines private innovation in China's agricultural sector. In his Academic Seminar, he examined the growth in agricultural output since China liberalized its seed industry in 2000, opening the industry to new entrants.

Where previously the seed industry would be locally monopolized, opening the market to competition has contributed to an increase in agricultural R&D activity. This liberalization in the industry has changed the innovation-incentives for agricultural researchers, driving the development of more resilient seeds with higher yield.

Commenting on his findings, Xiang remarks that "the most important takeaway is that economic growth depends on technological advance, which requires that we incentivize researchers."

IEMS Academic Seminars Prof Poncet "Local Financial Development and Constraints on Private-Firm Exports"2017.03.28
Find out more about Prof Poncet's seminar at http://iems.ust.hk/poncet

Prof Zhang "Moving "Umbrella": Identify Political Connections through Bureaucratic Transfers in China" 2017.05.11
Find out more about Prof Zhang's seminar at http://iems.ust.hk/umbrella

Dr Ma "What Explains the Continuous Increase of Total Agricultural Output in China?" 2017.04.27
Find out more about Dr Ma's seminar at http://iems.ust.hk/seed

OBESITY AS A MARKET FAILURE

In his Academic Seminar, IEMS Faculty Associate **Anirban Mukhopadhyay** reveals a link between obesity and attitudes towards diet. His study shows that people who believe that exercise is more important than diet were more likely to be overweight. Conversely, people who believed that diet was more important were less likely to be overweight. The culprit is the 'healthy lifestyle' myth – that anyone can control their weight with sufficient exercise. This 'healthy lifestyle' myth purported by Big Food effectively shifts culpability onto the consumer, and away from unhealthy-yet-profitable food products.

Despite sizable efforts to educate consumers through food labels, there is lack of information surrounding people's food choices. Consumers are usually unaware of what ingredients are in their food items – this is especially true for children, who base their choices solely on taste. These negative externalities are instead left to insurance providers, the healthcare sector, or private individuals. An efficient market environment means free trade with information and transparency about what is in food and the effects on consumers. This case of imperfect market information can be addressed through regulations, government schemes and public-sector intervention.

Research shows that sugar taxes can improve public wellbeing and allow authorities to price externalities into food options. In Hong Kong, a sugar tax to pressure consumers to consider their food choices may work especially well as the city has shifted away from a healthier, traditional diet towards convenience foods. The shift is driven by the increasing complexity of modern life: high housing costs and small kitchens, incentivizing people to favor easier food options.

Government intervention does not necessarily prevent a free market, but rather can be used for correcting market failures and to stem the rise in obesity-related diseases. What is needed now is for policy actors, the academic sector and the food industry to act.

IEMS Academic Seminar "Lay Theories of Obesity: Corporate Leanwashing and the Obesity Crisis as Market Failure"
2017.03.02
Find out more at http://iems.ust.hk/obese

SOUTH KOREA: MODEL OF INNOVATION OR CAUTIONARY TALE?

Faculty Associate **Joon Nak Choi** believes South Korea has reached the limits of its export-oriented development model. In his IEMS Academic Seminar, Prof Choi reviews the legacy of the South Korean government's heavy-handed policies, transforming the country into the export-driven powerhouse it is today. While intervention policies were good for catching-up, they have made it harder to cultivate innovation and entrepreneurship – key drivers in the 'new economy.'

The 15th largest economy in the world, South Korea has developed rapidly since the 1950s thanks to state-led industrialization which has enabled South Korea to leverage a fast-follower economic strategy and use economies of scale to deliver quality at a lower cost. As a result, South Korea's GDP per capita has exploded from USD158.2 in 1960 to USD27,538.8 in 2016.

However, the South Korean economy is dominated by its conglomerate giants such as Samsung, Hyundai, LG and SK Telecom. These companies, or 'chaebols,' make up over half of the Korean economy, so that small and medium enterprises struggle to grow and compete against this dominance.

Korea's efforts are further threatened by a demographic time-bomb. While economic development brought wealth, it has also led to collapsing birth rates in South Korea, a similar problem China will now face. However, unlike China, South Korea does not have extensive natural resources or a large population (South Korea's population is 60million, compared to Japan's 120million) to sustain the Korean workforce.

Joon Nak Choi suggests that South Korea needs new business strategies, educational policies and social structures in order to meet these challenges and prevent South Korea from slipping into deeper economic malaise.

IEMS Academic Seminar "Overcoming Economic Malaise: Strategic, Educational and Social Innovation for South Korea"
2017.02.16
Find out more at http://iems.ust.hk/skor

APEC'S LABOR MOBILITY FRAMEWORK A WIN-WIN FOR ASIA

At the "Workshop on the Development of an APEC Labor Mobility Framework" in Nha Trang, Vietnam, **Albert Park**, Director of HKUST IEMS, addressed representatives from multilateral organizations and international leaders from the region recommending that both sending and receiving countries should reduce migration costs, information asymmetries and provide standard, minimum worker protections in order to promote greater labor mobility. Specifically, countries can improve qualifications recognition systems, standardize features of employment contracts, streamline visa procedures, relieve credit constraints to mobility, and reduce costs of sending remittances.

Although governments worry that competition from foreign workers will negatively impact salaries of local workers, much of the costs of immigration are offset by the benefits of hiring foreign workers at lower wages, which can reduce costs and promote business expansion. For example, cheaper construction costs supports growth in the housing and transportation sectors leading to employment creation. Having domestic helpers increases the labor supply and incomes of local women. These benefits produce further spillover effects as hard-working immigrants contribute more tax revenue than the cost of public services or transfers they consume or receive therefore enabling greater public expenditures.

Professor Park highlighted the following benefits of hiring foreign workers.

Guest worker programs allow foreign workers to work in specific occupations that local workers are unwilling to undertake at low wages, maximizing the cost-saving benefits. Fixed term contracts for such workers avoid the potential public costs of supporting unemployed or retired immigrants.

Population aging puts great pressure on both governments and citizens to support more dependents, especially in emerging market countries with immature pension systems. An open immigration policy would add more working-age individuals to provide balance, keep overall fertility at replacement level and stabilize the age structure over time.

Prof Park's attendance is part of a collaboration between APEC and the Aging Hub of the Association of Pacific Rim Universities (APRU)—on whose steering committee Prof Park serves.

Workshop on the Development of an APEC Labor Mobility Framework 2017.02.18-9
Find out more at http://iems.ust.hk/apec

FINDING DIAMONDS IN THE ROUGH

Faculty Associate **Sujata Visaria** presented updated findings on her ongoing study of two micro-credit models, Group-Based Lending and Trader-Agent-Intermediated-Lending (TRAIL). The new micro-credit schemes forgo traditional joint-liability lending (JLL) by groups of borrowers and suggests more effective ways to address rural poverty.

While traditional JLL microcredit schemes have the advantage of more capable borrowers as a result of group self-selection, they have also been criticized for not increasing borrowers' income levels or assets. For this reason, Prof Visaria sought to improve on some of traditional microcredit's shortcomings while leveraging local information. Under the TRAIL scheme, borrowers are responsible for their own loan while new borrowers are selected into the scheme by an appointed agent, typically a local trader or shopkeeper who are offered commissions based on each borrower's repayment rate. After replacing JLL with knowledgeable local agents, the TRAIL scheme led to higher repayment rates and still succeeded in recommending productive and capable borrowers.

However, Prof Visaria is unsure if the model is ready for wider implementation. "We don't know whether the schemes would work in all contexts… What would happen if you had… multiple agents in the same village… Would they compete?" Prof Visaria also believes that microfinance institutions would do well to continue research into alternative microcredit delivery mechanisms. "They can learn from what we have done and what we've found and the mechanisms that we highlight in our research. To see if they can use similar methods to change the models and see if that can generate positive change for borrowers…"

The latest round of results have demonstrated that microcredit has potential as a powerful tool to alleviate poverty. What is needed is more research and development, beyond the tried-and-tested microfinance models.

IEMS Academic Seminar "Finding the Diamonds in the Rough: Welfare Comparisons of Two Targeting Mechanisms in Microcredit" 2017.03.09
Find out more at http://iems.ust.hk/trail

REVERSING CHINA'S BRAIN-DRAIN

In an IEMS Academic Seminar, **David Zweig** explains how China is hard-pressed to fulfill its pledge of becoming an innovative technological leader by 2020. With many of the nation's best academics emigrating abroad, the Chinese government has launched almost a dozen programs targeting top Chinese academics with foreign degrees in a bid to stem the brain-drain and coax academic talent home.

Zweig's study examined over 1400 participants of the Hundred Talents plan, the Thousand Talents plan and the Changjiang Scholars program to rank scholars using an annual average impact factor (AAIF) score.

A survey by the Organization Department of the Chinese Communist Party found various political or cultural problems with the Thousand Talents plan. Prof Zweig's study showed that the most talented returnees under the Thousand Talents plan were unwilling to return full-time, preferring part-time work while keeping their foreign tenured positions. To its detriment, The Hundred Talents plan would recruit academics using only money as an incentive and produced the weakest publication record of the three.

Prof Zweig believes that China's institutional culture has undermined repatriation efforts and explains that universities run by presidents with overseas PhDs were more likely to hire academics with overseas PhDs. Ultimately, top-tier scholars are only returning part-time. And those returning to universities are better than those returning to the Chinese Academy of Sciences. Yet China has at least managed to engage their best expatriate academics in its own scientific development. Part-time returnees are "almost as good" as the best Chinese researchers still abroad—validating the "diaspora model" that the Chinese began to support in 2001.

The research was done in collaboration with Dr. Henry Wang Huiyao, President of the Center on China and Globalization (Beijing) and Dr. Zweig's MPhil student, Mr. Kang Siqin.

IEMS Academic Seminar "The Best Is yet to Come: State Programs, Institutional Culture and Reverse Migration of High-Level Talent to China "2017.02.27
Find out more at http://iems.ust.hk/haigui

CONSUMER CULTURE IN TRANSITION: CHINESE MILLENNIALS

In her IEMS academic seminar, researcher **Wei-Fen Chen** explores the transitional identity and consumption habits of millennial consumers from emerging markets. Consumer identities are becoming increasingly hard to define in modern, dynamic societies using traditional demographics. It is based on in-depth interviews with 27 first-generation, Chinese international students enrolled in a major US university. Wei-Fen's research focuses on individuals experiencing upward mobility, as well as geographic mobility thanks to overseas education.

Young, overseas Chinese consumers expecting to return to their home country, shop strategically during their intended, fixed-term stay in a western culture they aspire to and differentiate themselves from immigrants, their local peers, and other global nomads through their consumption habits.

Wei Fen finds that Chinese millennials consume with an eye to making sure that they are pursing the legitimate, popular "West" whilst seeking meaning and reference for their consumption habits through their native cultural context. In other words, they are not trend setters or early adopters but pursue cosmopolitanism through their Chinese, "second-hand" image of the west.

Surprisingly, and contrary to their cohort's "Great Gatsby Generation" moniker, informants do not lightheartedly splurge on luxurious products, with the important exception of "experiential luxuries" (e.g. travel, entertainment) and "essential luxuries" (e.g. health, security, things with absolute, utilitarian values). In fact, interviewed Chinese millennials often refrain from shopping for elite, hedonic luxuries (e.g. designer fashion brands), but aspire to purchase them in later life.

Wei-Fen's findings provide insight into how emerging market consumers negotiate with their dynamic, global identities when away from home and immersed in their aspired culture.

IEMS Academic Seminar "Consumer Culture in Transition—The Consumption Habits and Mobility Experiences of Globally-Mobile Millennials from China" 2017.04.20
Find out more at http://iems.ust.hk/consumer

IEMS Research Projects Grants 2017

The HKUST IEMS Research Grants are intended to support high-quality research that provides valuable insights on emerging markets. The Institute particularly welcomed proposals or research projects that are collaborative, oriented around the Institute's key research focus areas, as well as those that would contribute to ongoing Institute's research initiatives on One Belt One Road and Digital Economy.

Below are the seven projects competitively selected for the grants for 2017-2018:

Research Topic	Principal (Co-)investigator(s)
Career Incentives for Civil Servant: A RCT Design	**Guojun He** (Social Science, Environment, Economic)
Effortless Elegance: Upwardly Mobile Consumers in the Emerging Markets	**Wei-Fen Chen** (HKUST Institute for Emerging Market Studies)
Export Expansions and Skill Acquisition: Evidence from Rural China	**Li Han** (Social Science)
The Information Channel of Financial Development on Economy Growth	**Pengfei Wang** and **Xuewen Liu** (Economics and Finance)
Regulatory Arbitrage and Bank Financial Reporting Quality Abroad	**Mingyi Hung** and **Tai-Yuan Chen** (Accounting)
Fighting Financial Frauds by Eye-opening Education Program	**Sunny Huang** and **Xiaojian Zhao** (Economics)
Signalling Happiness on Social Media: Cross-cultural Comparison	**Amy Dalton** and **Anirban Mukhopadhyay** (Marketing)

New Faculty Associates

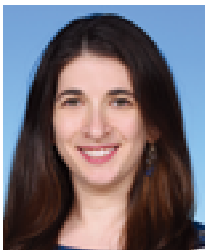
The Institute welcomes the following new Faculty Associates effective 1 June 2017

Tai-Yuan Chen (Accounting)

Stuart Gietel-Basten (Social Science)

Sunny Huang (Economics)

Xuewen Liu (Finance)



Kira Matus (Social Science)

China Initiative

Launched in April 2017, the China Initiative by HKUST Institute for Emerging Market Studies (IEMS) and Institute for Public Policy (IPP) aims to deliver research-based insights on economic and policy issues in China. The Initiative includes a multi-year research program on One Belt One Road, a series of workshops and publications on key China public policy issues, and ongoing research projects, conferences, and other events on multiple aspects of China's economic future, including innovation, digitalization, and human capital and jobs. Together the Institutes will co-organize research activities and public events to generate insights, spread knowledge and promote conversations among academic communities, policy makers and business leaders.

Find out more at http://iems.ust.hk/china

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