

**Annual Report (2003 – 2004)
of
K.J. Luke Chair's Office***

August 2004

S. Ghon Rhee
**K. J. Luke Chair of International Finance and Banking
and Professor of Finance**
College of Business Administration
University of Hawai'i
rheesg@hawaii.edu
<http://www2.hawaii.edu/~rheesg>

*This report covers the period from July 1, 2003, to August 31, 2004 and any academic papers and policy research papers cited in this report are available from <http://www2.hawaii.edu/~rheesg> or <http://www2.hawaii.edu/~fima>.

Annual Report (2003-2004) of K. J. Luke Chair's Office

The academic year, 2003-2004, was a very difficult year for the Luke Chair because of severe financial constraints imposed by the limited amount of discretionary funds, while the external demands for the Luke Chair's service increased dramatically, seeking his expertise in the areas of financial market development. Budget constraints were caused by poor portfolio performance of endowment funds by the University of Hawaii Foundation Office. As a result, discretionary funds available for the Luke Chair were cut down by more than half. Due to budget constraints, the Luke Chair was unable to participate in a number of important financial markets policy seminars unless travel funds were provided by sponsoring organizations. As a result, the Luke Chair had to cut down on a number of business and academic conference trips.

SERVICE: OUTREACH ACTIVITIES

A. Asian Shadow Financial Regulatory Committee

The inaugural meeting of the Asian Shadow Financial Regulatory Committee (ASFRC) was held at the College of Social Sciences, National Taiwan University, on July 11 in Taipei, Taiwan. The main theme of the inaugural meeting was "Financial Market Integration in the Asia-Pacific Region." Dr. Gordon S. Chen, Deputy Finance Minister of Taiwan, joined the meeting to deliver his speech on financial sector reforms in Taiwan. The ASFRC is a group of independent experts on economic policy issues relevant to financial markets and the financial industry of the Asia-Pacific region. ASFRC members are independent of any of the members' affiliated institutions. The policy recommendations of the ASFRC are its own. Typically, the ASFRC tries to translate concepts drawn from academic literature into concrete policy recommendations. The ASFRC will join the Global Shadow Financial Regulatory Committee Network of the U.S., Europe, Latin American, and Japanese SFRCs. A total of 15 members representing 10 economies in Asia are represented on ASFRC.

The Luke Chair was elected Chairman of the ASFRC for a three-year term renewable. The final list of 15 members is shown below:

Final List of ASFRC Members

Country Members

1. China: Gang Fan (Ph.D., Chinese Social Science Research Institute)
Secretary General, National Economic Research Institute
2. Hong Kong: K. C. Chan (Ph.D., University of Chicago)
Professor of Finance and Dean, School of Business and
Management, Hong Kong University of Science & Technology

Leslie Young (Ph.D., Oxford University)
Professor of Finance and Executive Director, Asia-Pacific Institute
of Business, Chinese University of Hong Kong

3. China/Hong Kong:
Anthony F. Neoh (QC, SC, University of London Law School)
Visiting Professor of Peking University and Advisory Board
Member of the China Securities Regulatory Commission
4. Indonesia: Hadi Soesastro (Ph.D., Rand Graduate School)
Executive Director, Centre for Strategic & International Studies
5. Japan: Juro Teranishi (Ph.D., Hitotsubashi University)
Professor of Economics and Research Director, Center for
Economic Institutions, Hitotsubashi University
6. Korea: Sang-Yong Park (Ph.D., NYU)
President of the Korean Securities Research Institute and
Professor of Finance, Yonsei University
7. Malaysia: See Yan Lin (Ph.D., Harvard University)
Pro-Chancellor, Universiti Sains Malaysia
Former Deputy Governor, Bank Negara Malaysia
8. Philippines: Maria Socorro Gochoco-Bautista (Ph.D., Columbia University)
Professor of Economics, University of the Philippines
9. Singapore: Khee Giap Tan (Ph.D., Anglican University)
Associate Professor of Banking and Finance, Nanyang
Technological University
10. Taiwan: Chen-Min Hsu (Ph.D., Johns Hopkins University)
Professor of Economics, National Taiwan University
11. Thailand: Anya Khanthavit (Ph.D., New York University)
Professor of Finance, Thammasat University

Pakorn Vichyanond (Ph.D., Harvard University)
Research Director (Financial Sector), Thailand Development
Research Institute Foundation
12. U.S. & Korea: S. Ghon Rhee (Ph.D., Ohio State University)
K. J. Luke Distinguished Professor of Finance and Executive
Director, Asia-Pacific Financial Markets Research Center,
University of Hawaii

Invited Member

13. Netherlands: Harald Benink (Ph.D., Maastricht University)
Professor of Finance, Erasmus University Rotterdam and Senior
Research Associate, Financial Markets Group, London School of

Economics and Chairman, European Shadow Financial Regulatory Committee

ASFRC members will meet twice a year to study, critique, and make recommendations on policy issues affecting the region as well as the individual economies. The members decided to hold the next two meetings in Hong Kong and Kuala Lumpur in 2005:

- Second ASFRC Meeting: January 15-17, 2005 in Hong Kong; K.C. Chan of Hong Kong University of Science and Technology will be the host.
- Third ASFRC Meeting: July 9-11, 2005 in Kuala Lumpur; See Yan Lin of Universiti Sains Malaysia will be the host.

On July 12, 2004, ASFRC organized a special session at the Asian Finance Association Annual Meeting to present its policy recommendations on regional financial market integration. A press conference was held thereafter, attended by approximately 15 reporters from the local Chinese and English newspapers. At the Special Session, Dr. Sheng-Cheng Hu, Minister and Chairman of the Council for Economic Planning and Development, was the invited speaker.

The Luke Chair, in his capacity as the inaugural chairman of the ASFRC, plans to participate in the Joint Meeting of Global Shadow Financial Regulatory Committee which will be held in Washington, D.C., on November 14-15, 2004 at the American Enterprise Institute.

B. Outreaching Activities: International and Domestic Organizations

The Luke Chair has been continuing his policy research work to meet the demands from multilateral financial institutions, including: the Asian Development Bank (ADB), Asia-Pacific Economic Cooperation (APEC), Association of South East Asian Nations (ASEAN) + 3 (China, Japan, and Korea), Pacific Economic Cooperation Council (PECC), and multilateral financial institutions such as Organization for Economic Cooperation and Development (OECD), and the World Bank.

1. Pacific Economic Cooperation Council

A. Third PECC Finance Forum Conference

The Luke Chair presented a paper entitled “Domestic Policy Challenges of Managing Capital Inflows” at the 3rd PECC Finance Forum Conference held in Santiago, Chile on June 20-21, 2004. The Conference was attended by 70 participants representing 18 APEC economies, APEC Bankers Advisory Council, International Monetary Fund, OECD, and the World Bank. The theme of the Conference was “Institution-Building in a World of Free and Volatile Capital Flows: PECC Perspectives” with three focus areas: (i) Strengthening International Financial Architecture: Global and Regional; (ii) Strengthening Domestic Financial Systems; and (iii) Strengthening Capacity-Building in Development of Bond Markets. Barry Eichengreen of the University of California-Berkeley and Enrique Marshall, Chairman of the Chilean Banking Supervisory Commission, delivered their keynote addresses.

The Luke Chair's paper focused on policy issues related to sterilization of capital inflows facing central banks in the Asia-Pacific region. The Luke Chair highlighted adverse consequences of having less-developed government bond markets when central banks conduct sterilization as part of open market operations. When government debt markets do not function adequately, the degree of conflicts between monetary policy and fiscal policy implementation deepens. Close coordination between the two policies becomes increasingly difficult and the separation between two policy implementations becomes blurred. Three adverse consequences include:

a. Market Illiquidity: In the absence of a well-functioning primary market for government securities, an easy solution for the government is to rely on captive demanders of government bonds such as financial institutions and non-bank financial institutions (pension and provident funds). These institutions are forced to subscribe at the yield lower than the market interest rates. Because a substantial gap exists between the primary market yield and the secondary market yield for government-issued securities, these institutions cannot sell unless they are willing to suffer from capital losses. As a result, both primary and secondary markets cannot develop and the government continues to rely on captive demanders, creating a significant distortion in the interest rate structure and effectively raising the cost of government debt.

b. Distortion Effects of Using Direct Monetary Instruments: In the absence of well-functioning market for government-issued securities, the central bank has to rely on direct monetary instruments such as reserve requirements, interest rate ceilings, credit controls, and sectoral credit allocation. Naturally, this emerging economy has to live with their distortion effects on government debt servicing cost until short-term money market and long-term government bond market are developed to allow a greater use of market-based indirect instruments. Even if the government bond market is in place, it may take a while before the market becomes efficient enough to strengthen the signaling effect of monetary policy and the credibility of monetary policy operations.

c. Rollover Risk: The government in this emerging market economy is unable to issue long-term debt with fixed coupon rate. Therefore, the government tends to issue short-term floating-rate debt, inflation-indexed bonds, in combination with foreign currency debt. This type of borrowing mix may be preferred by the central bank because the central bank believes that the credibility of monetary policy can be promoted, while government debt managers of this country fear that this borrowing mix increases rollover risk in view of the double mismatch in currency and maturity. Indeed, rollover risk emerges as a major source of the systemic risk and the country's financial sector becomes vulnerable to external shocks as we have experienced during the East-Asian financial crisis. The single most dramatic element in the financial crisis was the sudden reversal of private capital flows of \$105 to \$110 billion to Asia, including Indonesia, Korea, Malaysia, Philippines, and Thailand, between 1996 and 1997.

B. *Second PECC Finance Forum Conference*

Two policy research papers the Luke Chair presented at the Second PECC Finance Forum Conference were published by the Australian National University Asia Pacific Press:

- a. The Structure and Characteristics of East Asian Bond Markets
- b. The Asian Bond Bank: A Good Idea to Explore for Credit Enhancements

C. *The 15th General Meeting of the Pacific Economic Cooperation Council*

The 15th General Meeting of the Pacific Economic Cooperation Council (PECC) was held in Bandar Seri Begawan, Brunei Darussalam, on September 1-3, 2003. The Luke Chair participated in the Meeting as a member of the U.S. delegation which included:

Ambassador Lauren Moriarty, U.S. Senior Official for APEC and East Asian Economic Affairs;
Dr. Charles Morrison, President of the East West Center and Director of the US Asia Pacific Council; and
Mr. Mark Borthwick, Director of U.S. Asia Pacific Council.

The theme of this biennial meeting was “Securing the Future: A Strategic Path for the Next Decade” with four major focuses: (i) Financial Stability; (ii) Global and Regional Trade; (iii) Private-Public Sector Partnerships; and (iv) Roadmap for the Next Decade. During the general meeting, the World Bank’s major annual publication, *Global Economic Prospects*, and the World Trade Organization’s major annual publication, *World Trade Report 2003*, were officially launched. The opening and welcoming address was delivered by the King of Brunei Darussalam. The three keynote speakers included:

Dato’ Seri Abdullah Ahmad Badawi, Deputy Prime Minister of Malaysia
Dr. Gloria Macapagal Arroyo, President of the Philippines
Dr. Thaksin Shinawatra, Prime Minister of Thailand

On behalf of the PECC Finance Forum, the Luke Chair organized a seminar on “Creating Asian Bond Markets: Necessity and Roadmap.” Dr. Charles Morrison served as the Chair of the session and this seminar was one of four focus workshops in the finance area. The Luke Chair delivered an overview presentation on “Promotion of a Regional Bond Market: Regional Efforts and Initiatives” which was followed by presentations from three industry panel members:

Cecile Saavedra, Managing Director, Asia-Pacific Standard & Poors Credit Market Services;
Rafael J. Consing, Jr., Head of Debt Finance, South East Asia, HKSB; and
Graham Egan, Director in Finance, Municipal Finance Authority of British Columbia.

On August 29 – 31, the Luke Chair participated in the Coordinating Group Meetings, Informal Standing Committee Meeting, and Formal Standing Committee Meetings that were held in preparation for the PECC General Meeting. One of the most important agenda was to complete the draft Brunei Declaration to be adopted by the PECC General Meeting.

D. *Hong Kong Committee for Pacific Economic Cooperation*

The Luke Chair was invited by the Hong Kong Committee for the Pacific Economic Cooperation to serve as its luncheon speaker on March 23, 2004. The luncheon was attended by 40 people from the Hong Kong government, its financial

services industry executives, and academicians. His speech touched on various Asian Bond Market Initiatives currently undertaken by APEC, ASEAN+3, PECC Finance Forum, Executives' Meeting of East Asia and Pacific Central Banks (EMEAP).

E. *Future Opportunities*

In response to the request from Dr. Soo-Gil Young, Chairman of the PECC Finance Forum, that the Luke Chair takes over the chairmanship of the PECC Finance Forum from 2005, the Luke Chair consulted with Dr. Charles Morrison, president of the East-West Center and Director of the U.S. Asia Pacific Council, and Mr. Mark Borthwick, Executive Director of the United States National Committee for Pacific Economic Cooperation (U.S.-PECC) and Director of the U.S. Asia Pacific Council. Although strong interest was expressed by the U.S. PECC, the Luke Chair expressed his willingness to serve as the chair of the PECC Finance Forum if the following conditions are met:

- A multiyear funding issue is resolved;
- A clear delineation of respective functions of the U.S. PECC and the PECC Finance Forum. The Finance Forum is one of two pillars under the PECC and it should not be subject to the U.S. PECC even if funding support is provided by the U.S. PECC; and
- At least one administrative staff position must be created within the Asia-Pacific Financial Markets Research Center and it is supported by the University of Hawaii because the multi-year funding does not support administrative expenses of the Finance Forum Conference Secretariat.

This proposal is currently awaiting a firm commitment on funding from the U.S. PECC.

2. The APEC Finance Ministers' Meeting Process

A. *The 10th APEC Finance Ministers' Meeting*

The 10th APEC Finance Ministers Meeting (FMM) was held in Phuket, Thailand on September 4-5, 2003. The Luke Chair participated as a member of the PECC Finance Forum. With the exception of Papua New Guinea, the remaining 20 APEC economies attended the Meeting. U.S. Treasury Secretary John Snow and Assistant Secretary for International Affairs of the U.S. Treasury Randall Keith Quarles headed the U.S. delegation. In addition, the Asian Development Bank (represented by President Takao Chino), the International Monetary Fund (represented by Managing Director Horst Koehler), and the World Bank (headed by Managing Director Jeffrey A. Goldstein) participated in the Meeting. This was the first time in the 10-year history of the APEC FMM, representatives of private sector organizations such as the APEC Financiers' Group, the APEC Business Advisory Group, and PECC Finance Forum were invited to participate.

The opening address was delivered by Prime Minister Thaksin Shinawatra of Thailand and the Luncheon Keynote Speaker was IMF Managing Director Horst Koehler. Although the exchange policy was not on the formal agenda of the APECC FMM, Treasury Secretary Snow raised this policy issue by advocating the adoption of flexible or floating exchange rates but his remarks received only a lukewarm support from China, Japan, and other APEC economies. IMF Managing Director Kohler suggested that

APEC economies should adopt market-based exchange rate systems but added that no single currency regime was best for all countries.

The Luke Chair was pleased to observe that the development of regional bond markets was unanimously supported by the APEC Finance Ministers. As a result, various policy research programs will be undertaken by both public and private sector research institutions in the forthcoming years to study credit enhancement systems and Asian common currency in preparation for the creation of Asian bond markets.

B. The 11th APEC Finance Ministers' Meeting and Finance Ministers and Central Bank Deputies' Meeting

The Luke Chair plans to participate in the 11th APEC Finance Ministers' Meeting as well as APEC Finance Ministers and Central Bank Deputies' Meeting to be held in Santiago, Chile on August 31-September 3, 2004. At the Deputies' Meeting, the Luke Chair will present summary policy recommendations by the PECC Finance Forum. The Luke Chair also prepared a summary report on the creation of an Asian bond market for the APEC Finance Ministers' Meeting on behalf of the PECC.

C. APEC Mexico Panel on Asset Securitization and Credit Guarantee

At the invitation of the Mexican Ministry of Finance and Public Credits, the Luke Chair visited Mexico City, Mexico on October 13 - 17 as a member of the APEC Mexico Panel, to have meetings with government agencies, government development banks, and private sector financial institutions. This Mexico Expert Panel on Asset Securitization and Credit Guarantee was created by the Hong Kong Monetary Authority (HKMA).¹ This Panel was created under the APEC Initiative to assist the Mexican Government in developing securitization and market-based credit guarantee system.² The major objectives of the APEC Initiative are:

- To promote understanding and awareness of the importance of securitization and credit guarantees to bond market development in the region; and
- To assist APEC economies identify and take concrete steps to remove impediments to the development of securitization and credit guarantee markets.

Even though the Panel's first visit was considered a reconnaissance mission or fact-finding mission, the Panel presented its preliminary findings and identified major focus areas for financial sector reforms: (i) development of mortgage-backed securities markets; (ii) creation of credit enhancement program for small- and medium-sized enterprises (SMEs) to facilitate their access to the domestic capital market; (iii) consolidation of development banks; and (iv) development of the municipal bond market. At the wrap-up meeting, the Mexican authorities expressed their strong interests in the first two areas.

¹ Three other members of the Mexico Panel included: (i) Daniel C. K. Chu, Hong Kong Monetary Authority; Sung-Chul Gwak, Korea Credit Guarantee Fund; and Alex S. K. Lam, Capital Access Risk-Engineering, Inc.

² Similar Panels were created for China and Thailand by the HKMA.

- Policy recommendations for developing the securitization and credit guarantee markets; and
- Action plans for Mexico in developing its securitization and credit guarantee markets.

Listed below are government agencies and financial institutions the Panel visited during the five-day mission.

Government

- a. Ministry of Finance and Public Credits
 - Jose Antonio Gonzalez Anaya, Director General (Non-Bank Financial Institutions)
 - Ceilia Cejudo Paskual, Deputy Director General (International Relations)
 - David Palacios Hernandez, Deputy Director General (Non-Bank Financial Institutions)
 - Luis Mancera de Arrigunaga, Director General (Banks and Savings Institutions)
- b. Banking and Capital Market Supervisory Commission
 - Pablo Escalante Tattersfield, Vice President (Financial Institutions)
 - Enrique Nort, Managing Director (International Financial Institutions)
- c. Central Bank
 - Lorenza Martinez Triqueros, Chief Economist
- d. Housing Development Agency
 - Guillermo Babatz Torres, General Director
 - Antonio Vivanco Casamadrid, Director
 - Daniela Gurrea Martinez, Deputy Director

Government Agencies

- a. Nacional Financiera (Development Bank for Small- and Medium-Sized Companies)
 - Federico Patino M., Deputy General Director
 - Timoteo Harris, International Finance Director
 - Carlos H. Perez de la Cueva, Securitization Director
- b. Federal Government Social Security Office
 - Joel Meza Aceituno, General Director
 - Carlos Ricardo Marentes Herrera, Director

- c. Federal Commission of Electricity
 - Francisco J. Santoyo Vargas, Finance Director
 - Jose Antonio Lopez Moralez, Infrastructure Investment Director
 - Eugenio Laris Alanis, Engineering Director
- d. Petroleos Mexicanos
 - Juan Jose Suarez Coppel, Director (Corporate Finance)
 - Octavio Ornelas Esquinca, Managing Director (Finance and Treasury)

Private Sector

- a. Association of the Mexican Securities Companies
 - Carlos Levy Covarrubia, Chairman
- a. Banorte Casa de Bolsa
 - Eduardo Ramos De La Cajiga, Deputy Director General
 - Jose Luis Flores Michel, Director (Investment)
- b. Mihares Angoitia Cortes Y Fuentes SC Law Firm
 - Ferdando Borja Mujica, Partner
- c. Hipotecaria Nacional S.A. de C.V. (Housing Institute)
 - Victor M. Requejo H., Director General
 - Javier Naranjo Carrasco, Director (Credit)
 - Jaime Daneil Padilla Bardia, Director (Administration)
- d. AFORE XXI (Private Pension Fund)
 - Javier Berstain Iturbide, Director General
 - Iker Kutz, Director (Investment)
 - Francisco Tonatiuh Rodriguez Gomez, Director (Investment)
- e. Su Casita Hipotecaria (Housing Institute)
 - Manuel Campos Spoor, Vice President
 - Mark D. Zaltzman, Director (Corporate Finance)
- f. Association of Mexican Insurance Companies
 - Ricardo Arias Jimenez, General Director,
- g. Mexican Stock Exchange

- Alejandro Reynoso del Valle, Director of Planning and Product Development
- Jaime Diaz Tinoco, Director General
- Luis Acevedo Gomez, Director of Operations
- Gerardo Mejia Morena, Director General

h. Gruppo BIMBO

- Roberto Cejudo Pascual, Corporate Treasurer

D. *The 18th APEC Finance Ministers' Technical Working Group Meeting*

The Luke Chair participated in the 18th APEC Finance Ministers' Technical Working Group Meeting which was held on June 23-26, 2004 in Arica, Chile as the head of PECC Finance Forum delegation. The APEC FM TWG Meeting prepares for the 11th APEC Finance Ministers Meeting to be held in September 2004 in Santiago. This meeting had a delegation of 95 people representing 18 APEC economies, Asian Development Bank, IMF, and World Bank. The meeting had two policy themes: (i) Fiscal discipline in the presence of volatile capital inflows; and (ii) Institution building for regional and global financial structure.

The Luke Chair presented a consolidated report entitled "Institution-Building in a World of Free and Volatile Capital Flows: PECC Perspectives." In his speech, the Luke Chair emphasized that the world economy still faces potential sources of systemic risks

- Rising U.S. Interest Rates
- Higher Oil Prices
- Overheated China's Economy
- Adverse Impact of U.S. Twin Deficits on the value of the Dollar

However, the potential threat of this systemic risk has been substantially mitigated by a number of positive developments in strengthening International Financial Architecture since the 1997-1998 East-Asian financial crisis.

- Greater Exchange Rate Flexibility
- Emerging Market Economies Became More Prudent in:
 - a. Short-term Borrowing from abroad
 - b. Current account management with an export-oriented growth strategy
 - c. Fiscal policy implementation
- Greater Transparency in IMF's Operations
- Global Standards and Codes for Financial Disclosure and Governance Practices by International Financial Institutions
- Regional Initiatives for Financial Markets Integration

Nevertheless, further improvement would be necessary because the strengthening of international financial architecture has been partial and/or tentative in some areas. Specifically, the following areas were identified:

- Trans-Pacific Imbalance in Current Accounts
- Accumulation of large foreign exchange reserves
- Liberalization of Capital Account
- More Flexible Exchange Rate System
- Emerging Market Economies' Inability in Borrowing Abroad in Their Own Currencies

As a result, some emerging market economies and financial institutions remain vulnerable to external shocks.

This sense of insecurity has been leading Emerging Market Economies in cumulating a very large amount of foreign exchange reserves. At the end of March, the total amount of foreign reserves cumulated by Asian Economies, including Japan, exceeded \$2.1 trillion. Based on the lessons learned from the recent crisis, Emerging Asian Economies have been actively promoting Regional Financial Cooperation. Two major initiatives include:

- Chiang Mai Initiative (CMI)
- Asian Bond Market Initiatives

An increasingly large amount of foreign exchange reserves cumulated in the APEC region signifies the need for further flexibility in exchange rate policy and capital account opening. Large foreign exchange reserves may be an indication that some degree of complacency is present among Emerging Market Economies in macroeconomic policy adjustment.

The CMI is an excellent vehicle for Effective Liquidity Support among participating economies in light of the fact that IMF's Credit Contingency Line has not been accepted because of signaling problems, high cost, and low flexibility. Asian Bond Fund I and planned ABF II initiated by Executives' Meeting of East Asia and Pacific Central Banks, or better known as EMEAP, represent an important step for increasing the demand for the bonds denominated in U.S. dollars and local currencies and issued by sovereign and quasi-sovereign borrowers in the Asian region.

The idea of the Asian Basket Currency Bond Corporation, which has been considered by ASEAN + 3, may be an interesting step for exchange rate coordination among participating economies. In pushing forward Asian Bond Market Initiatives, the Luke Chair warned that emerging market economies should be aware of:

- Foreign investment in domestic bond markets in Asia remains insignificant and underlying reasons have yet to be identified
- Regional and global bond market activities are more integrated than normally perceived
- Asian borrowers still prefer global financial centers to Asian financial centers
- Creation of regional rating agencies, regional clearing and settlement systems, regional trading systems may increase the cost of borrowing in Asian financial centers
- Regional bond markets may not be sustainable if they are segmented and isolated from global bond markets
- A public-private sector partnership is critically important

Additionally, the Luke Chair made a point that emerging market economies should be realistic in their expectations on the regional initiatives:

- Regional financial architecture will take a long time to implement
- Exchange rate coordination may take even longer
- Eliminating hurdles that impede on regional bond market activities and harmonization of legal and regulatory framework will be a time-consuming and prolonged process

Looking forward, the Institution Building for Regional Bond Market Activities should pay attention to the following steps:

- Promotion of regional market activities will need a careful evaluation of greater exchange rate flexibility and capital account opening in adequate sequence
- In addition, capacity building to upgrade and harmonize rating practices in domestic markets, accounting standards and insolvency regimes to encourage greater cross-border investment
- Building of sound infrastructure for domestic bond Markets
- Continuation of Domestic Financial System Reform Programs

The most realistic and immediate major step under the current regional initiative would be credit guarantee and credit enhancement programs in helping small- and medium-sized enterprises to access capital market financing and facilitate financing activities for sovereign and quasi-sovereign borrowers by bridging the credit gap. The Luke Chair made this point because he believed that the regional effort by ASEAN+3 may fail because of its emphasis on Asian basket currency, which may not be feasible due to political sensitivity.

E. APEC Second High-Level Policy Dialogue on Development of Securitization and Credit Guarantee Markets

The Luke Chair served as a speaker at the Second High-Level Policy Dialogue on Development of Securitization and Credit Guarantee Markets co-organized by the Hong Kong Monetary Authority, the Korean Ministry of Finance and Economy, and the World Bank on March 22, 2004. This program was one of the financial market development initiatives adopted by the APEC Finance Ministers in Los Cabos, Mexico in 2002 and the inaugural Dialogue was held in Seoul, Korea in June 2003.

This Dialogue was attended by approximately 80 senior government officials (mostly from ministries of finance and central banks) of APEC member countries, International Monetary Fund, Asian Development Bank, and the World Bank. The major focus of the Dialogue was the current status of asset securitization and credit guarantee mechanism in China, Thailand, and Mexico. Preliminary findings of three country expert panels were presented and reviewed for future courses of action and policy recommendations. The Luke Chair presented his view on China's asset securitization which is at the nascent stage of development and how best the Chinese authorities can take advantage of asset securitization and credit enhancement programs in promoting its corporate and municipal markets. At present, the Chinese corporate bond market is tiny with outstanding bonds of 50 billion RMB (or US\$6 billion), which is less than one

percent of the GDP. While the municipal bond market does not exist, China has a fairly large government bond markets with an outstanding government bonds of 370 billion RMB (or US\$450 billion).³

F. 16th APEC Finance Ministers' Technical Working Group Meeting

The Luke Chair also participated in the 16th APEC Finance Ministers' Technical Working Group (TWG) Meeting on July 10-12, 2003, in Huahin, Thailand. The TWG Meeting was to prepare policy recommendations and to draft resolutions to be adopted by APEC Finance Ministers when they meet in Phuket, Thailand, on September 4-5, 2003, for their 10th Annual Meeting. On behalf of the PECC Finance Forum, the Luke Chair presented summary recommendations on the creation of regional bond markets at the TWG Meeting.

G. APEC Workshop on Developing Corporate Bond Market in APEC Economies

The Luke Chair delivered a keynote address "An Overview of Corporate Bond Markets and Policy Issues" at an APEC Workshop on developing corporate bond market in APEC economies scheduled on August 6-8, 2004 at the Shanghai National Accounting Institute. In his keynote speech, the Luke Chair presented an overview of corporate bond markets in the APEC economies and identified several areas of policy reforms to further develop corporate bond markets in the region:

- Promotion of Asset-Backed Securities
- Development of Mortgage-Backed Securities
- Establishment of Credit Guarantee and Enhancement Programs for Small- and Medium-Sized Enterprises
- Financial Autonomy for Municipal Government Development of Municipal Bond Markets
- Promotion of Creditor Right and Streamline Corporate Bankruptcy Proceedings
- Legal Framework for Bond Borrowing and Lending to Promote REPO Markets

H. APEC/Bank Indonesia/World Bank Conference (December 11-12, 2003)

The Luke Chair delivered a keynote address entitled "Government Bonds as Monetary Policy Instrument & Coordination Issues between Public Debt Management and Monetary Policy" at the APEC/Bank Indonesia/World Bank Conference held on December 11-12, 2003 in Bali, Indonesia. Because the theme of the Conference was "Developing Government Bonds as Monetary Policy Instruments in APEC Economies," he covered a wide range of issues related to open market operations of central banks in his speech to set the tone of the Conference. The Luke Chair's speech focused on the role of government bond markets in open market operations and potential conflicts

³ At the end of 2003, the outstanding government bonds consisted of: Treasury bonds (2,109 billion RMB); Financial bonds (1,147 billion RMB); Central Bank Notes (333 billion RMB); and Enterprise bonds (111 billion RMB).

between government debt management and monetary and fiscal policies. Specifically, the Luke Chair made the following points:

- Open market operations by a central bank are conducted on the secondary market with the target goal of determining short-term interest rate, while government debt management is implemented on the primary market, whereas fiscal policy determines the aggregate amount of government borrowing.
- In general, there are two alternatives in setting the central bank's target: (i) aiming for a target amount of bank reserves (quantity) while allowing the short-term interest rate to fluctuate; or (ii) aiming at a target short-term interest rate (price) while allowing bank reserves to fluctuate.⁴
- With well-developed financial markets especially for government securities where the signaling effect is transmitted efficiently, the central bank sets up a target short-term interest rate, which is known as "passive" open market operations. Long-term interest rates are determined by the market by adding appropriate inflation expectation, term premium, and risk premium to the short-term interest rate once open market operations determine overnight interest rate.
- A separation of government debt management from monetary policy must be maintained to allow efficient transmission of signaling effect of monetary policy in open market operations.
- However, when the government bond market is underdeveloped, potential conflicts deepen between monetary policy and government debt management and between monetary policy and fiscal policy.
- Additionally, with the government bond market underdeveloped, the central bank prefers to issue short-term, floating-rate debt, inflation-indexed bonds, in combination with foreign currency debt because it believes that the credibility of monetary policy can be promoted, while government debt managers of this country fear that this borrowing mix increases rollover risk in view of the double mismatch in currency and maturity.
- In the absence of government bond markets, central banks had to rely on their short-term debt instruments for sterilization, which tends to drive up short-term interest rates and encourage further capital inflows into the country. Because of this self-fulfilling process, the central bank's open market operations become a daunting task.⁵

⁴ In the United States, Japan, and the euro area, operating objectives of open market operations are the federal funds rate, the uncollateralized call money rate, and the EONIA (euro overnight index average) rate, respectively. In March 2001, however, the Bank of Japan (BOJ) adopted new procedures for money market operations in which the balance of current accounts held by financial institutions at the BOJ. This policy is expected to continue until the deflationary pressure eases in Japan.

⁵ Sterilization of large capital inflows is a part of central banks' open market operations for many Asian economies that face influx of direct foreign investment, portfolio investment flows, and large amount of external borrowing.

- A classic example of the violation of the separation principle is Japan's fiscal investment and loan program which causes structural weaknesses of the Japanese government bond market.

The conference was attended by approximately 100 participants from 15 APEC member countries. Most of the participants were mostly mid- and senior-level staff members from central banks of APEC member countries.

3. Asian Bankers Association Inaugural Meeting of the Advisory Group on APEC Financial System Capacity-Building

The Luke Chair spoke at the Inaugural Meeting of the Advisory Group on APEC Financial System Capacity-Building on September 5, 2003 in Phuket, Thailand. The invitation was extended by the Asian Bankers Association (ABA) and the Thai Bankers' Association. Both organizations were the organizers of this Inaugural Meeting scheduled in conjunction with the 9th APEC Financiers' Group Meeting on September 4, 2003. Approximately 120 ABA members were the participants in this inaugural meeting. My presentation was to provide academic perspectives on the financial system capacity building. In his speech, the Luke Chair emphasized the importance of the collaboration between business (mostly banking sector) and academia in knowledge creating activities in terms of academic and policy research and introduced the FIMA Research Center's programs.

4. The Bo'ao Forum for Asia Annual Conference 2003

The Luke Chair delivered a speech, entitled "Regional Bond Markets: Rationale and Roadmap," at the Second Annual Conference of the Bo'ao Forum for Asia on November 2, 2003 in Bo'ao, Hainan Province, China. The session the Luke Chair served as a lead speaker was entitled "Searching for a Breakthrough in Asian Financial Cooperation."

Stephen Roach, Chief Economist of Morgan Stanley, served as the session chair. Other lead speakers included:

Robert Mundell, 1999 Nobel Laureate in Economics and Columbia University
 Rafael Consing, Head of Debt Finance, Hong Kong Shanghai Bank
 Joseph B. Eichenberger, Vice President, Asian Development Bank
 Yoshihiro Iwasaki, Director General, South East Asia Department, Asian Development Bank
 Duck Woo Nam, former Prime Minister of Korea

The Bo'ao Forum for Asia was founded in February 2001. Bo'ao was chosen as the permanent headquarters of the Forum. This year's theme was "Asia Searching for Win-Win: Development through Cooperation." Using the Bo'ao Forum for Asia, it appears that China wants to play the role of a big brother for the Asian economies especially in promoting regional economic integration. Perhaps, China is in a position to do so because it provides a huge consumer market for Asian exporters and manufacturing companies.

Fidel V. Ramos, former president of the Philippines, is the chairman of the Board of Directors of the Forum, Bob Hawke (who spearheaded the creation of the Asia Pacific Economic Cooperation (APEC) when he was Australian prime minister) is a leading board member, and Mr. Long Yongtu is the Secretary General of the Forum. Mr. Long served as the chief negotiator of China when it became a member of the World Trade Organization. Chinese Premier Wen Jiapao opened the Conference.

The Bo'ao Forum for Asia has its strengths as well as weaknesses. For example, the participation of many presidents and prime ministers of India, Pakistan, Philippines, Singapore, and Central Asian countries may be considered as its strength, but the government-driven initiative may impede its future growth. The success of the World Economic Forum based in Davos, Switzerland, may be attributed to the private sector-driven initiative. Listed below are partial lists of keynote speakers at the Bo'ao Forum for Asia Conference:

- Charlene Barshefsky, former U.S. Chief Trade Negotiator
- Bob Hawke, former Prime Minister of Australia
- Vu Khoan, Deputy Prime Minister of Viet Nam
- Jin-Pyo Kim, Deputy Prime Minister, Korea
- Mike Moore, Former Director General of World Trade Organization
- Pervez Musharraf, President, Pakistan
- Nursultan Abishevich Nazarabayev, President, Republic of Kazakhstan
- Saparmurat Niyazov, President of Turkmenistan
- Emomali Rakhmonov, President, Republic of Tajikistan
- Klaus Schwab, President of World Economic Forum
- Thongloun Sisoulith, Deputy Prime Minister of Laos
- Goh Chok Tong, Prime Minister, Singapore
- Chee-Hwa Tung, Chief Executive of Hong Kong SAR

In addition, CEOs of large manufacturing firms from China, Japan, Korea, India, and Thailand were present as lead speakers of various concurrent sessions.

5. OECD/ADB Round Table on Capital Markets Reforms in Asia

A. 6th OECD/ADB Round Table on Capital Market Reforms in Asia

The Luke Chair was invited to present a report on "Mutual Fund Scandals in the U.S. Market and Implications for Asian Financial Markets" at the 6th OECD/ADB Round Table on Capital Market Reforms in Asia on September 29-30, 2004 in Tokyo. The report is currently in preparation for its final draft.

B. 5th OECD/ADB Round Table on Capital Market Reforms in Asia

The 5th Round Table on Capital Market Reforms in Asia was organized by the Organization for Economic Co-Operation (OECD) on November 19-20, 2003 in Tokyo, Japan in collaboration with the Asian Development Bank Institute. Mr. Alan Cameron, former Chairman of the Australian Securities and Investments Commission, was the chair of the Round Table. A total of 45 participants from 16 OECD member and non-member countries participated in this year's Round Table. The participants were mostly chairmen and deputy chairmen of capital market regulatory agencies of the Asia-Pacific

region and the OECD Member countries. The Luke Chair met new faces such as Kiyotaka Akasaka, newly appointed Deputy Secretary-General, OECD, and Peter McCawley, Dean, Asian Development Bank Institute, at the Round Table.

The five major themes of this Round Table included: (i) Market Failures and Regulators; (ii) Future Regulatory Role of Exchanges; (iii) Rebuilding Confidence in Markets: Dealing with Bear Markets; (iv) Institutional Investor Governance; and (v) The Relevance of European Regulation on Regional Regulation in Asia. The Luke Chair served as a lead speaker in the third session and presented “Short Sale Regulations: Facts and Myths” with a background paper entitled *Short Sales Constraints: Good or Bad News for the Stock Market*. Both documents are available from the FIMA Research Center and OECD’s web sites. Other speakers in the same session included:

Stephen Grenville, former Deputy Governor, Reserve Bank of Australia;
John Thompson, Financial Counsellor, OECD;
Herwidayatmo, Chairman of Capital Market Supervisory Agency, Indonesia; and
Naohiko Matsuo, Director for International Financial Markets, Financial Services Agency, Japan.

6. Asian Development Bank

A. Regional Economic Monitoring Unit

The Luke Chair was requested by the Asian Development Bank (ADB) to serve as Senior Advisor for the Regional Economic Monitoring Unit in preparation for the semi-annual report on bond market development for the ASEAN+3 finance ministers beginning in November this year. The terms and conditions for the Luke Chair’s involvement have yet to be settled.

At the invitation of the Regional Economic Monitoring Unit of the Asian Development Bank (ADB), the Luke Chair visited ADB on March 20, 2004 to review and provide necessary advice on the Asia Bond-On Line web site that is under construction. This web site covers government, corporate, municipal, financial derivatives markets of 13 countries (ASEAN+3) and was launched during the ADB Board of Governors’ Meeting on May 15-17, 2004 in Jeju Island.⁶

B. The 37th Annual Meeting of the Board of Governors of the Asian Development Bank

The 37th Annual Meeting of the Board of Governors of the Asian Development Bank (ADB) was held in Jeju Island, Korea on May 13-17, 2004. The Annual Meeting was opened by the Korean Prime Minister Koh Kun. The Luke Chair participated in the following seminar programs in addition to the ADB Board of Governors Sessions:

- i. “Corporate Restructuring in Korea and Asia”
- ii. “A Single Currency for East Asia: Lessons from Europe”
- iii. “Regional Financial Cooperation in Asia”

⁶ While the Luke Chair was with the ADB, he spearheaded the creation of the Regional Economic Monitoring Unit in response to the request from ASEAN Finance Ministers.

iv. “Domestic Credit Rating Agencies in Asia: Roles, Issues, and Challenges”

From these seminar programs, it was apparent that the following two areas emerged as critical policy research topics: (i) an appropriate exchange rate regime in each of the region’s economies in preparation for an Asian common currency; (ii) the increased role of credit rating agencies in structured debt financing in preparation for the creation of a regional bond market.

The major cause of the East-Asian financial crisis was the simultaneous adoption of: (i) the fixed-exchange rate system (pegged to the U.S. dollar); (ii) opening of capital account; and (iii) independent monetary policy by the crisis-affected and crisis-vulnerable economies in the region. This represented an impossible trinity in terms of policy implementation. Therefore, at least one of three policies areas must be relaxed to make three policies work. In the post-crisis period, Korea, Indonesia, Thailand, and the Philippines adopted the floating exchange rate, while pursuing free capital mobility and independent monetary policy. China and Malaysia closed capital account while maintaining the fixed exchange policy and independent monetary policy. Hong Kong does not have its own independent monetary policy to maintain the fixed exchange policy in the form of traditional currency board system and open capital account. As a result, the exchange rate policy becomes a major policy issue again as policy makers and academicians weigh the pros and cons of creating an Asian common currency.

In the United States, the outstanding amount of securitization reached \$6.8 trillion which exceeded the Treasury securities markets by the amount of \$3.4 trillion. In contrast, Japan’s securitization began in 1994 and the outstanding amount is \$227 billion at the end March 2003, but the Japanese securitization market has been growing fast. Another Asian country which witnessed a dramatic development of asset securitization is Korea, with the enactment of Asset-Backed Securitization Law in September 1998. No statistical data is available for the outstanding securitized assets, but the amount of issued volume in 2003 reached approximately \$32 billion for 191 issues. All these issues relied on multi-tier structured financing using special purpose vehicles where the role of credit rating agencies became significant. Because Asian bonds to be issued must rely on the same principle of structured debt financing for credit enhancement, credit rating agencies are expected to play an increasing role of credit rating agencies in the region.

7. ASEAN+3

The Luke Chair delivered a keynote address “Regional Bond Market Initiatives: Immediate Concerns and Proposed Solutions” at an ASEAN+3 Workshop on Developing Asian Bond Market scheduled at the Shanghai National Accounting Institute on August 3-5, 2004. The workshop was organized by the Chinese Ministry of Finance and the APEC Finance and Development Program. Participants in the workshops are mid- to senior-level officials from central banks and ministries of finance of ASEAN + 3 and APEC economies. The total number of participants in the two workshops was approximately 82.

In his presentation, the Luke Chair stressed that the motivations for the Asian Bond Market Initiatives by the ASEAN+3 and Asian Bond Fund Initiatives by 11 Members of the Executives’ Meeting of East Asia and Pacific Central Banks (EMEAP) were

understandable but misguided. He shared his concerns about the Asian Bond Market Initiatives under the following reasons:

- Feasibility: Regional market activities in Japan remain insignificant relative to the size of Japan's bond market (US\$7,000 billion). The last time shogun bonds (denominated in foreign currencies and issued by foreign institutions) were issued in Japan was in 1993, while the amount of new samurai bond issues (denominated in Japanese yen and issued by foreign institutions) in 2003 was mere US\$7 billion. While Japan was unable to serve the region's financing needs, can the 13 economies (ASEAN+3) with differing stages of bond market development and with un-harmonized market infrastructure create a regional bond market? Another important reality is that domestic bond markets in the region attract very little intra-regional investments, which casts doubt on the feasibility of a regional bond market.
- Sustainability: The sustainability of a regional bond market was questioned because of a strong sense of regionalism. Efforts among Asian economies have been directed toward the creation of a regional clearing and settlement system, a bond rating agency, a trading system, etc. These measures would raise the cost of issuing bonds by requiring an additional financial infrastructure. No Asian borrowers will issue bonds in the regional financial centers if they have to pay higher costs than in the global financial centers.
- Realities of Regional Market Activities: It is observed that regional bond market activities are far more integrated with global bond market activities than normally acknowledged. Recent empirical evidence indicates that approximately 45% of global bond issues by Asian borrowers were purchased by Asian investors in the primary market offerings and about one-third of these issues were underwritten by Asian investment banks.

8. U.S. Central Intelligence Agency

The Asia-Pacific, Latin America, and Africa (APLAA) Division of the U.S. Central Intelligence Agency invited the Luke Chair to conduct two back-to-back seminars on the following two topics on March 26, 2004 at its Langley Headquarters.

- a. Regional Bond Markets: Rationale, Concerns and Roadmap
- b. The Chinese Government Bond Market: Opportunities and Challenges

The APLAA Division provides the National Security Council under the Office of the President with extensive policy research reports along with other divisions under the CIA Department of Information. The CIA routinely invites academicians in selected research areas of its interest. At his presentations, officers from both CIA and State Department were present.

9. Financial News Inc. of Korea

The Luke Chair delivered a keynote address entitled "Challenges and Opportunities in Managing Foreign Exchange Reserves" at the 5th Seoul International Financial Forum hosted by the Financial News Daily Corporation (FNNews), ABN-

AMRO, and the UH Asia-Pacific Financial Markets (FIMA) Research Center. My speech focused on policy issues facing East-Asian economies because of increasing capital inflows which are composed of: (i) trade surplus; (ii) foreign direct investments; (iii) portfolio investments; (iv) private credits; (v) official level capital inflows; and (vi) speculative “hot money.” At present, Asian economies have capital inflows in all components except the official level capital inflows. With capital inflows amounting to \$150 - 190 billion, all East-Asian economies engage in sterilization as part of their open market operations. The sterilization of capital inflows is a challenging task because of less-developed government bond markets and administered interest rates.

As central banks engage in intense sterilization, the amount of FX reserves keep cumulating because they buy foreign currencies by selling central bank notes (Korea’s Monetary Stabilization Bonds; China’s PBOC Notes; Indonesia’s Central Bank Bills) to commercial banks. At the end of March this year, the total amount of foreign exchange reserves cumulated by Asian economies reached over \$2.1 trillion. Of the 10 countries with the largest foreign exchange reserves, the top seven are Asian economies (Japan; China; Taiwan; Korea; Hong Kong; India; and Singapore) followed by Germany, United States, and Russia. At the end of February this year, seven East-Asian economies (China, Hong Kong, Japan, Korea, Singapore, Taiwan, and Thailand) were holding U.S. treasury securities in the amount of US\$940 billion, which is \$70 billion more than what they had at the end of 2003, and about 45% of total reserves cumulated in the region. The Luke Chair’s speech focused on how to manage foreign exchange reserves without jeopardizing monetary policy, while maintaining the integrity of foreign exchange reserve management. He also discussed on inferior models of utilizing foreign exchanges reserves. For instance, in China, \$45 billion have been diverted to recapitalization of state-owned banks and government bodies operating in non-transparency form such as the Government Investment Corporation and Temasek Holdings Limited in Singapore and Khazanah Nasional Berhad and Minister of Finance Inc. in Malaysia. As a warning to the Korean authorities, he mentioned that those examples should not be followed because Korea plans to create the Korea Investment Corporation using about \$20 billion diverted from the reserves.

The UH FIMA Research Center was invited by the FNNews Inc. to serve as a co-sponsor of this prestigious Forum. In return for serving as a co-sponsor, the Luke Chair helped the FNNews in identifying and inviting some speakers at the Forum. The Forum was attended by 250 participants from the Korean government, the Bank of Korea (central bank), banking and non-banking financial institutions. The following speakers were invited to the Forum:

Mr. Seong-Tae Lee, Deputy Governor of the Bank of Korea
Mr. Jung Jae Lee, Chairman of the Financial Supervisory Commission
Mr. Jin-Pyo Kim, Deputy Minister of Finance and Economy
Mr. Soon-Hoon Bae, Chairman of the Presidential Committee on North East Asian Business Hub
Dr. Tan Khee Giap, Professor of Nanyang Technological University
Mr. Canyon A. Chan, Senior Vice President of Franklin Templeton
Mr. Ben Rudd, Vice President, ABN-AMRO
Mr. Lee Tiong Seng, Executive Director of Morgan Stanley
Dr. George Anderson, Senior Vice President of Ginnie Mae
Dr. David Fernandex, Research Head of JP Morgan Chase Bank Asia
Mr. Kenny Fok, Senior Vice President of Hong Kong Mortgage Corporation

Mr. Eisuke Nagatomo, Executive Officer and Board Member of Tokyo Stock Exchange
Mr. Gerald Chan, Managing Director of UBS
Mr. Douglas Naismith, Managing Director of Fidelity Investments Asia

The FNNews is the third largest daily economic newspaper, competing with Maeil Economic News and Hankuk Economic News. This Forum is one of a number of ambitious programs the Financial News undertake to increase its visibility and market share in the Korean economic newspaper market.

10. Securities Commission, Malaysia

At the invitation of the Securities Commission (SC) of Malaysia, the Luke Chair conducted a seminar on "Why Do We Need Regional Bond Markets?" on July 16, 2003. Approximately 40 people from SC, Bank Negara Malaysia (Central Bank), and the Malaysian Ministry of Finance were at the presentation.

ACADEMIC RESEARCH ACTIVITIES

The Luke Chair's academic research work comprises serving as managing editor of the *Pacific-Basin Finance Journal*, and also preparing, presenting, and publishing of academic papers and capital market policy research reports. In addition, his academic activities include external refereeing service, supervision of Ph.D. dissertations, and service for academic meetings. His academic activities during the year are listed below:

1. Editor of the Pacific-Basin Finance Journal

The K. J. Luke Chair serves as Editor of the *Pacific-Basin Finance Journal*. Published five times a year, the Journal showcases the highest quality in theoretical and empirical research manuscripts on financial markets in the Asia-Pacific region. Issues 11.4, 11.5, 12.1, 12.2, 12.3 and 12.4 were published. No special issue was published because the 2003 Asian Finance Association Annual Meeting in Taipei, Taiwan was cancelled due to concerns related to SARS.

2. Publications of Academic Papers and Policy Reports

"Price Limit Performance: Evidence from Transaction Data and the Limit Order Book," (with Soon-Huat Chan and Kenneth Kim), forthcoming in *Journal of Empirical Finance*

"Relation between Bank Monitoring and Firm Value Creation: a Survey," (co-authored with S. Hwan Shin), forthcoming in *Korean Institutional and Policy Reforms* (edited by Lee-Jay Cho and Yoon Hyung Kim).

"The Structure and Characteristics of East Asian Bond Markets," forthcoming in *Developing Regional Bond Markets in East Asia* (edited by Yung Chul Park and Takatoshi Ito)(Sydney, Australia: Australian National University Press).

"The Asian Bond Bank: A Good Idea to Explore for Credit Enhancement" (co-authored with Gregory R. Stone) forthcoming in *Developing Regional Bond Markets in East Asia* (edited by Yung Chul Park and Takatoshi Ito) (Sydney, Australia: Australian National University Press).

"Taxes, Keiretsu Affiliation, and Income-Shifting," (co-authored with Jeffrey Gramlich and Piman Limpaphayom), *Journal of Accounting and Economics* 37 (2004), 203-228.

"Further Reforms of the JGB market for the promotion of regional bond markets," in *Designing Financial Systems in East Asia and Japan* (edited by Joseph P. H. Fan, Masaharu Hanazaki, and Juro Teranishi)(London: RourledgeCurzon, 2004), pp. 316-333.

"Index-Futures Arbitrages in Japan" (co-authored with Y. Peter Chung and Jun-Koo Kang), in *The Japanese Finance: Corporate Finance and Capital Markets in Changing Japan*, Volume 4 (Amsterdam: North-Holland, 2003), pp. 173-197.

"The Wealth Effect of Foreign Investor Presence: Evidence from the Indonesian Stock Market," (co-authored with Mamduh Hanafi), *Management International Review* 44 (2004), 157-171.

3. Papers under Review or Final Revision

The following papers are under the review by leading academic journals or under final revision for journal submissions in the areas of finance and accounting:

- "Investor Demand for IPOs, and Aftermarket Performance: Evidence from Hong Kong Stock Market" (co-authored with Sumit Agarwal, and Chunlin Liu). "Is the London Market Competitive? A Study of Trading Behavior of London Market Makers" (co-authored with Rosita P. Chang and Chunlin Liu).
- "The Relation of Earnings Management to Firm Size" (co-authored with Yangseon Kim and Caixing Liu).
- "The 1997 Nasdaq Reforms and Preferenced Trading" (co-authored with Tony Ning Tang).
- "The Transmission of Pricing Information of Dually-listed Stocks: A New Approach Using Wavelet Analysis" (co-authored with Francis In).
- "The Impact of Interbank and Capital Market Competition on Relationship Banking: Evidence from the Japanese Experience," (co-authored with Donald R. Fraser and G. Hwan Shin).
- "Earnings Management During Distinct Periods of Capital Demand: Evidence from Japanese Banks," (co-authored with Sumit Agarwal, Souphala Chomsisengphet, Chunlin Liu).
- "Where Does Price Discovery Occur for Stocks Traded in Multiple Markets?: Evidence from Hong Kong and London" (coauthored with Sumit Agarwal and Chun-Lin Liu).

4. Papers under Progress

- “An Anatomy of the Magnet Effect: Evidence from Korea Stock Exchange High Frequency Data” (co-authored with Yan Du)
- “The Impact of Trading Method on Volatility and Market Manipulation: New Evidence from the Singapore Exchange” (co-authored with Greg R. Stone and Tony Ning Tang)
- “Price Discovery Process on Regular Trade and Cross Trade Markets: Empirical Evidence from the Jakarta Stock Exchange,” (co-authored with Rosita P. Chang and Mamduh Hanafi).
- “Are Foreign Investors More Informative? An Examination of The Price Movement in The Jakarta Stock Exchange” (co-authored with Mamduh Hanafi)
- “Decomposing Overnight Price Reversals: Implications for Trading Strategies,” (co-authored with Pin-Huang Chu and Robin K. Chou).

5. Presentation of Academic Papers

- “Macroeconomic Factors, Asset Pricing Anomalies, Investment Horizons, and Stock Returns,” (co-authored with Pin-Huang Chou, Wen-Shen Li, and Jane Sue Wang) presented at the 15th Annual Meeting of the Asian Finance Association, July 12-14, 2004, Taipei, Taiwan.
- “The Magnet Effect: Evidence from the Korea Stock Exchange” (co-authored with Daphne Du) presented at the Korea Stock Exchange on April 29, 2004.
- “Asian Financial Markets: Research Opportunities and Challenges” presented at the 2004 Malaysian Finance Association as a keynote speech on May 6, 2004.
- "Relation between Bank Monitoring and Firm Value Creation: a Survey," (co-authored with S. Hwan Shin), presented at the 2003 EWC/KDI Conference on Institutional and Policy Reforms to Enhance Corporate Efficiency in Korea, July 24-25, 2003, Honolulu, Hawaii.

6. Finance Area Research Workshop Series

Beginning of Spring 2003, the Luke Chair created the finance area research workshop series to promote research activities in the finance department. The Seminar Series in academic year 2003-2004 was offered as indicated below:

October 20 (Monday), 2003

Presenter: Dr. Janusz Brzeszczynski of University of Lodz
Title: Short-term Dependencies between Volatility of Currency, Money, and the Capital Markets: The Case of Poland"

February 9 (Monday), 2004

Presenter: Dr. David Whitcomb
Title: Decimalizing and Impending NYSE Market Structure Change: Implications for ECNs and the Brokerage Industry

February 23 (Monday), 2004

Presenter (A): Greg R. Stone
Title: Post-Bankruptcy: An Investigation into the Performance of Orphan Equities

Presenter (B): Tony Tang
Title: Return Volatility and Market Methods: New Evidence from Singapore Stock Exchange

March 15 (Monday), 2004

Presenter (A): Daphne Yan Du
Title: Magnet Effect Caused by Daily Price Limit Systems

Presenter (B): Crystal Chen
Title: The Effects of Short Sale Regulations on Price Discovery Process

April 12 (Monday), 2004

Presenter: Qianqiu Liu
Title: Estimating Betas from High Frequency Data

July 7 (Wednesday), 2004

Presenters: Lena and James Booth
Title: Has the Role of Underwriter Reputation on IPO Underpricing Changed?

7. Visiting Scholar Program

The Luke Chair invited scholars from abroad for joint research work. Three invited scholars include:

- Dr. Sung Pyo Chi, Kangnung National University (Korea): To conduct research on the convertible bond markets in the Asia-Pacific region
- Dr. Woojin Kim, Korea Institute of Finance: To conduct research on corporate governance in the Korean banking sector
- Dr. Mamduh Hanafi, Gadjadara University (Indonesia): To conduct research on Indonesian financial markets

8. Ad Hoc Academic Paper Review

- Journal of Financial Markets
- Journal of Financial Research
- Journal of Empirical Finance
- Journal of Business Finance & Accounting

9. Service for Academic Meetings and Association

Board Members of the Asian Finance Association: The Luke Chair attended its Board Meeting on July 11, 2004 in Taipei, Taiwan, where the new president and board members of the AsFA were elected and the collaboration with the U.S. Financial Management Association was discussed. Mohamad Arriff of Monash University was elected president; Edward Chou of National Chengchi University and Michael Skully of Monash University were newly elected vice presidents. The Luke Chair will be serving on the AsFA Board ex officio in my capacity of the editor of the *Pacific-Basin Finance Journal*. The new board decided on the venues of the future annual meetings:

2005:	Kuala Lumpur, Malaysia
2006:	Auckland, New Zealand
2007:	Singapore (tentative)

Program Committee, The 14th Asian Finance Association Meeting, July 12-14, 2004, Taipei, Taiwan.

Program Committee, The 12th Conference on Securities and Financial Markets, December 19-20, 2004, Kaohsiung, Taiwan.

Program Committee, 11th Annual Meeting of Global Finance Association, April 4-6, Las Vegas, Nevada.

10. Service for Academic Journals

The Luke Chair has been serving as the Editorial Board Member for

Yonsei University Journal of Management (1996-Present);
Gadjah Mada University International Journal of Business (1999-Present)
Yonsei University Journal of Management (1996-Present); and
Journal of Accounting, Management, and Economic Research (Journal Riset Akuntansi, Manajemen, Ekonomi) (2002-Present).

TEACHING ACTIVITIES

Ph.D. Student Advising and Research Work

Under the Luke Chair's formal and informal guidance, the following Ph.D. students have been working on their dissertation proposals:

<u>Student</u>	<u>Dissertation Topic</u>
----------------	---------------------------

Crystal Chen	Short Sales Restrictions
Daphne Du	Daily Price Limits
Greg Stone	Risk Arbitrage
Ning Tang	Nasdaq Market Reforms

MBA Level “Managerial Finance”

- The Luke Chair taught MBA level course “Managerial Finance” at the Viet Nam EMBA Program in Hanoi and regular MBA program on campus.

SERVICE ACTIVITIES

A. Master of Science Program in Asian Finance

The Luke Chair has spearheaded the Finance Department’s effort in creating a one-year M.S. Program in Finance focusing on Asian finance. The proposed program is under review by the UH Faculty Senate.

B. Coordinator for Ph.D. Program

Under the re-designed CBA Ph.D. Program in International Management, the Luke Chair has been serving on the Ph.D. Committee, representing the Finance Department.

C. Graduate Faculty

The Luke Chair has been serving as a graduate faculty member in Economics since October 1999 and a graduate faculty in South East Asian Study since Spring 2000.

He has been serving as advisor for the following Ph.D. students:

Dissertation Chair

- Tony Tang (Finance)

Existing Students: Informal Advisor

- Greg Stone (Finance)
- Crystal Xiaopei Chen (Finance)
- Daphne Du (Finance)

New Incoming Students: Informal Advisor

- Liang Zhang (Finance)
- Iris Zuo (Finance)
- Jack DeJong (Finance)

D. Member of Ph.D. Committee

Vilasinee Bunyasrie of Economics Department (2003-Present)

F. Newspaper Column

“Why Asia Must Think Global on Financial Markets” *Financial Times* (co-authored with Harald Benink), August 6, 2004.

G. Organizing Committee for the Establishment of a Korean Community Bank

The Luke Chair has been serving as an organizing committee member for the creation of a Korean community bank in Honolulu since March 2004.