

# Discussion on Wong and Eng (2015)

by

Teo Wing Leong

University of Nottingham Malaysia  
Campus

# Summary

- Discussion on [Chin-Yoong Wong](#) and [Yoke-Kee Eng \(2015\)](#), “What shape the spillovers of China’s industrial upgrading and renminbi internationalization to ASEAN? Lessons from a New Keynesian model of endogenous firm entry and invoicing currency”

# Summary

- This paper attempts to investigate how **China's industrial upgrading** and **renminbi internationalization** impact on **ASEAN Economic Community (AEC)**.
- The **analysis** is done through the lens of a **two country New Keynesian model**

# Summary

- The model has the following **non-standard features**:
  - Cross-border upstream-downstream linkage
  - Endogenous firm entry
  - Endogenous invoice currency
  - Different scenarios on China's capital account convertibility

# Key findings

- Finding 1: Yuan appreciation leads to “industrial upgrading” in China. Effects on AEC **benign**. **Induce “industrial upgrading” in AEC** as China demands more exports from AEC.
- Finding 2: If **China’s capital account is liberalized**, the beneficial effects of Yuan appreciation is **reversed** as demand for AEC export declines.

# Key findings

- Finding 3: **Targeting export price** can help AEC in the face of capital account liberalization in China, as it creates conducive environment for industrial upgrading

# Comments

- This is a very **ambitious** paper!
- The topic is very **interesting** and **important**.
- The model used is **very sophisticated**, require a lot of work and at the **frontier of research**.

# Issues to consider: 1

- Key finding 1 may be sensitive to the assumption of **2 country model**, where China is the only export destination of AEC
  - If China and AEC also **compete** in **3<sup>rd</sup> country** for export market, industrial upgrading in China may have more complicated effect on AEC
  - Would be good to model **3<sup>rd</sup> country** more explicitly



# Issues to consider: 2

- In a **two country model**, the **elasticity of substitution** between goods from different countries will be a **crucial parameter**, so would be good if there are more **robustness check** on that

# Issues to consider: 3

- It would be interesting to report the **welfare effects** too