

Financial Liberalization and Economic Integration in East Asia

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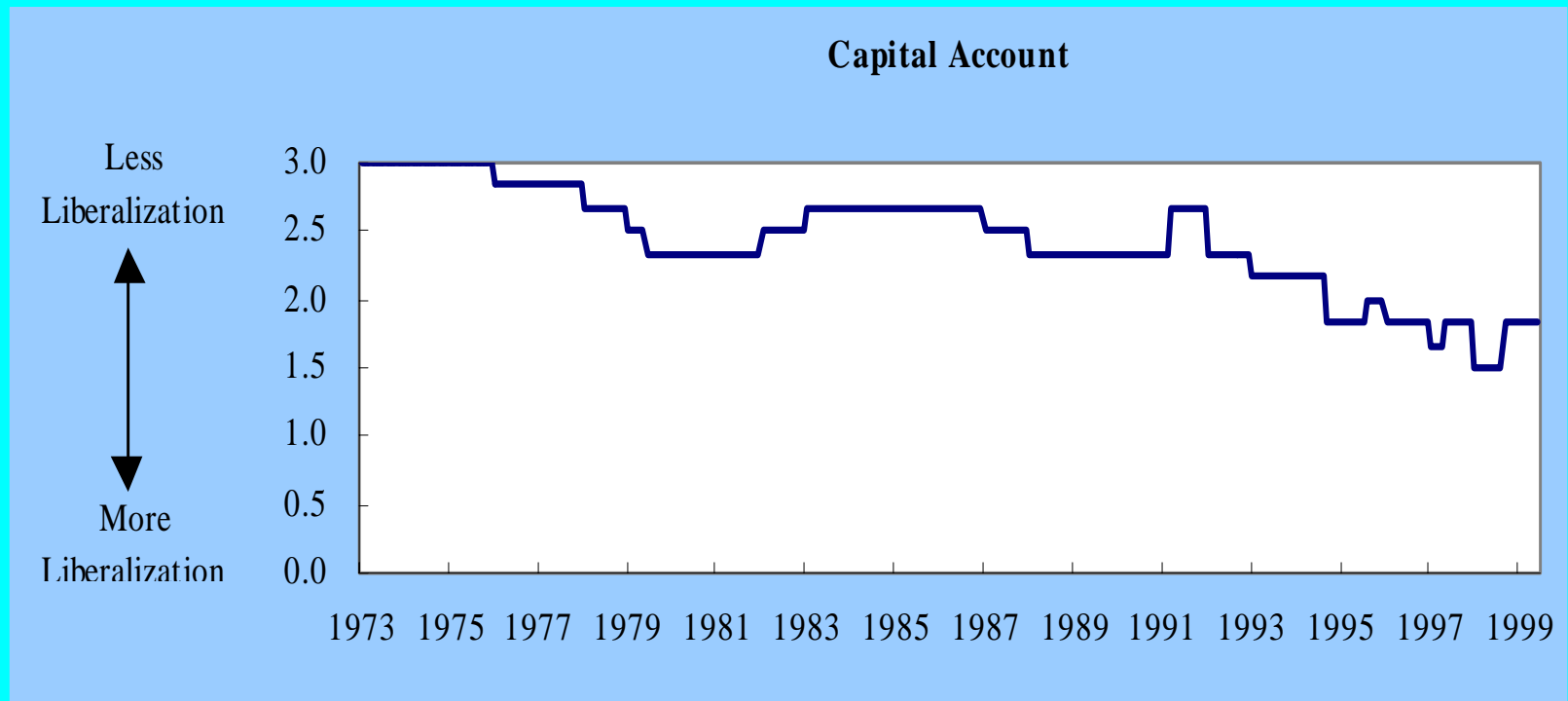
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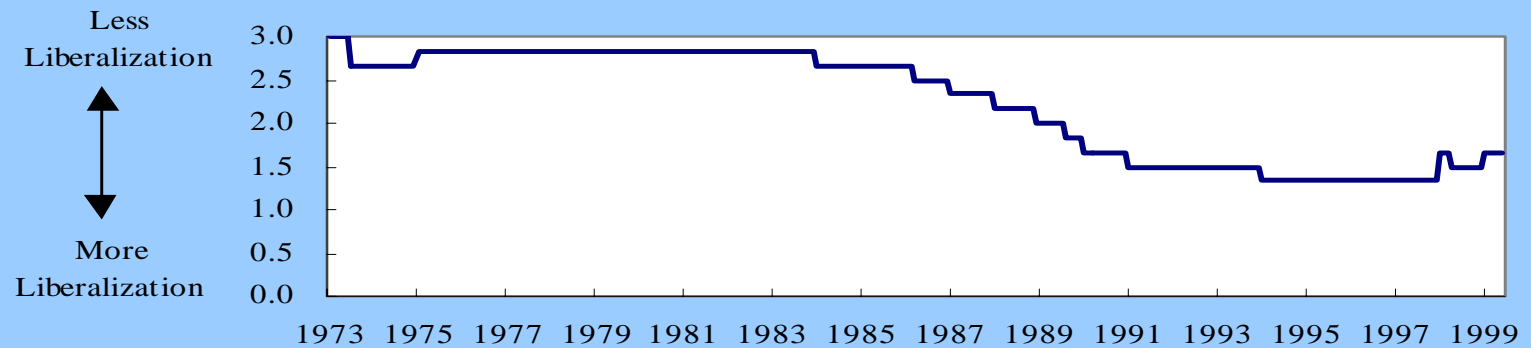
I. Financial Liberalization and Common Currency Area (CCA)

- Facilitate migration of capital in the long-run
 - may lead to industrial specialization
- Greater access to international financial markets for financing of balance of payments imbalances in the short-run
 - Homogeneous countries would not be good candidates for a CCA, because an external shock in one country could be highly contagious: financing constraint
- Risk sharing through international portfolio diversification
 - Countries with different macroeconomic structures benefit from joining a CCA eliminating the exchange rate risks and reducing the transaction costs

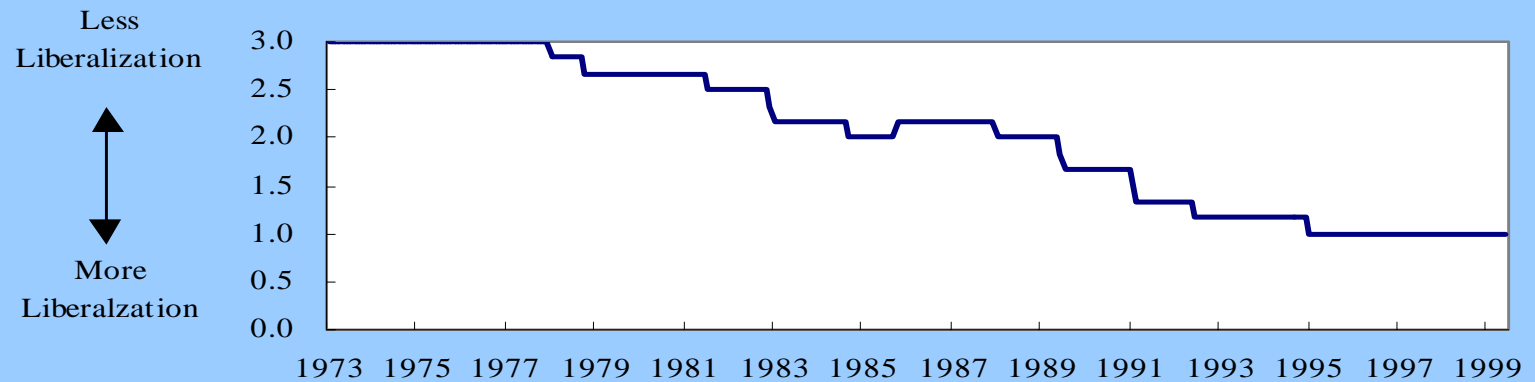
II. Financial Liberalization in East Asia



Stock Market



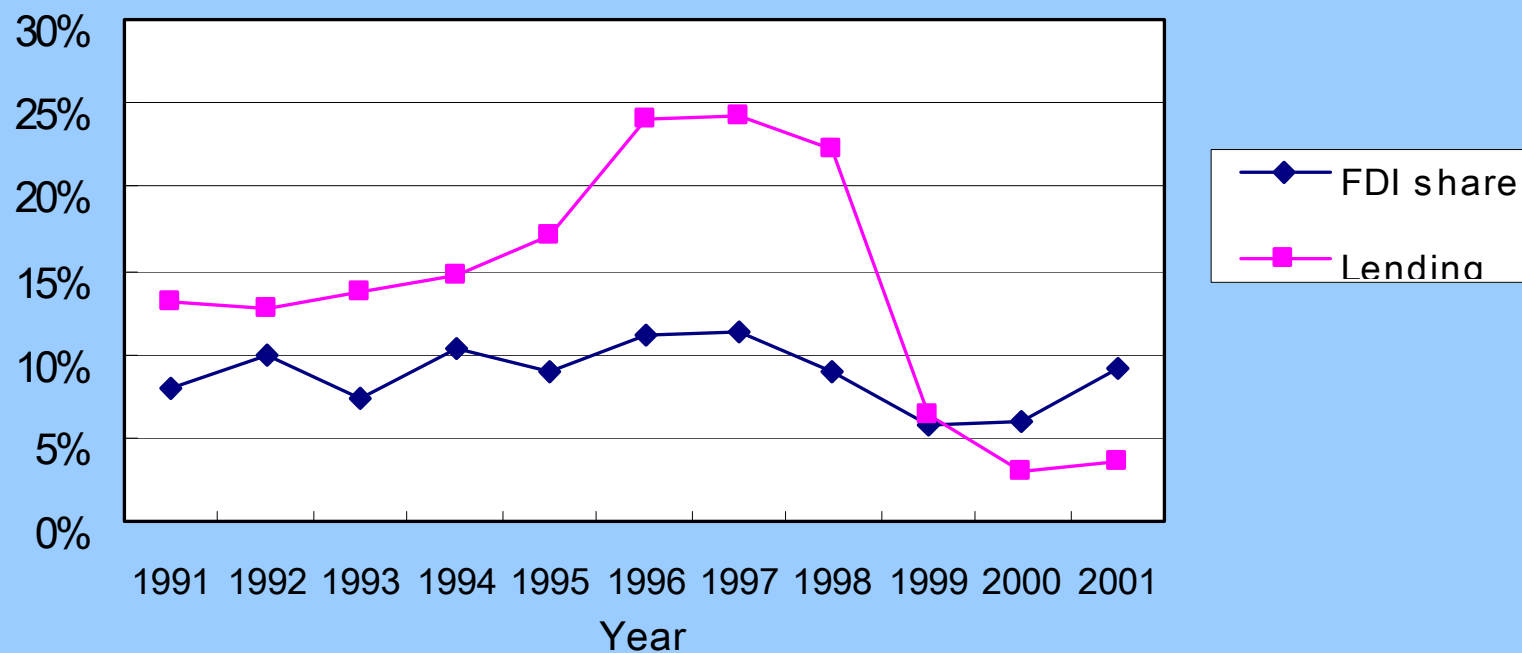
Domestic Financial Sector



Source: Kaminsky and Schmukler (2002)

III. Financial Market Integration in East Asia (1)

Japan's Int'l Bank lending and FDI to Asia



Ministry of Finance, The Japanese Government (FDI)
Bank of International Settlement (Lending)

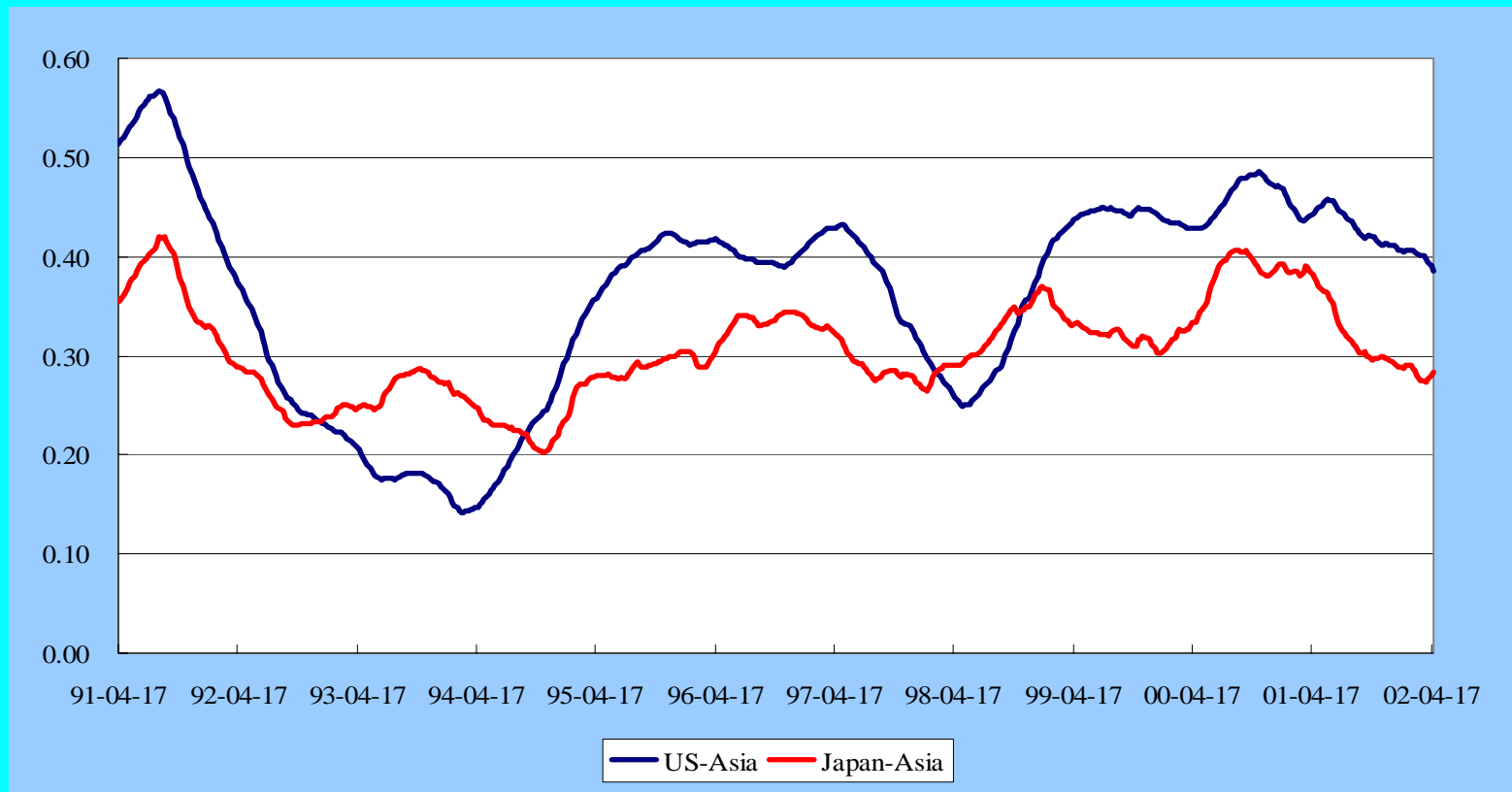
III. Financial Market Integration in East Asia (2)

Cointegration Tests of Stock Prices of East Asian Countries

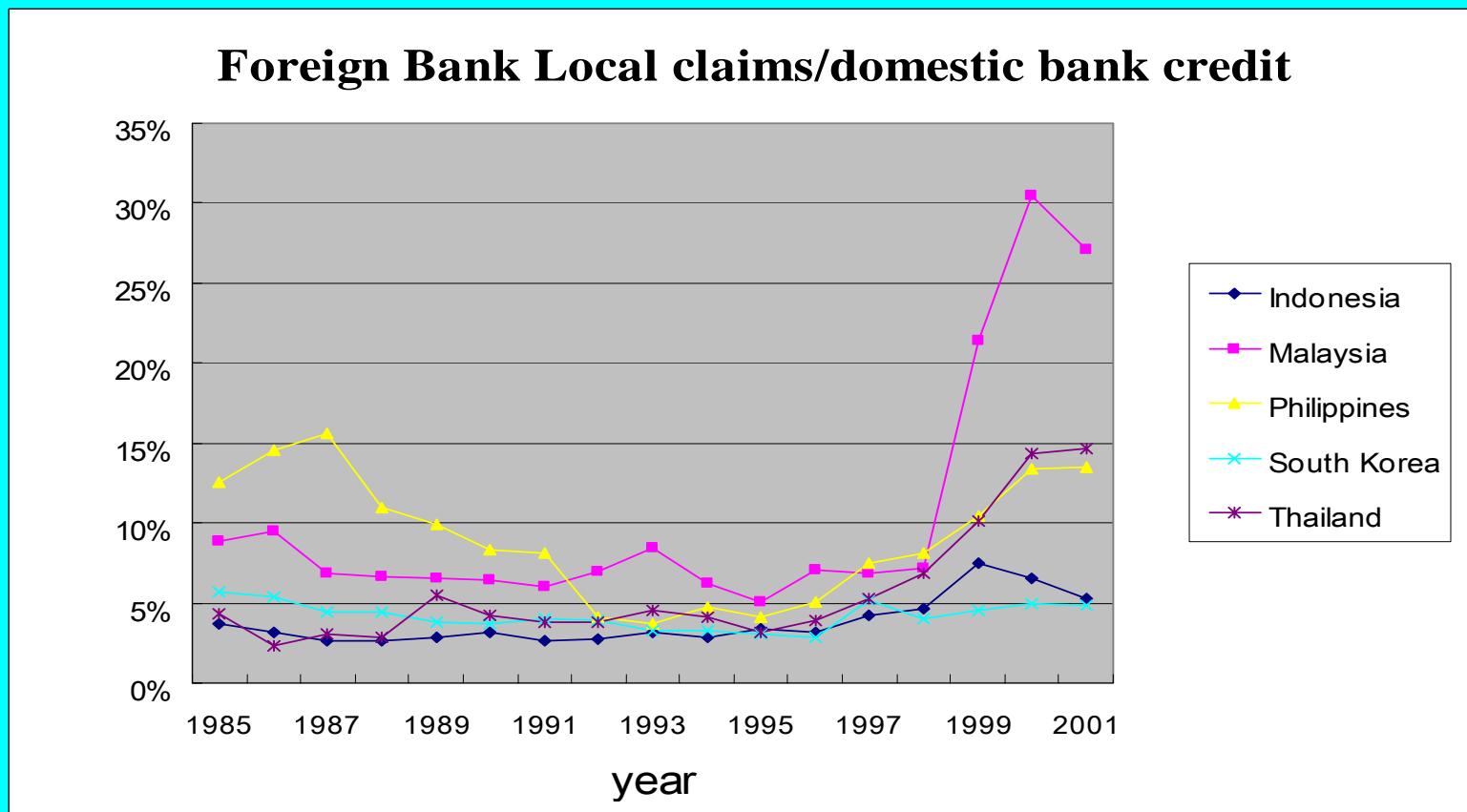
Classification	Pre-crisis		Post-crisis	
Null hypotheses	$H_0: r=0$	$H_0: r \leq 1$	$H_0: r=0$	$H_0: r \leq 1$
Indonesia, Japan	6.59	0.39	5.35	0.23
Indonesia, Korea	7.91	2.19	14.48	1.79
Indonesia, Malaysia	15.08	0.15	12.75	3.85
Indonesia, Thailand	9.94	0.92	16.09	6.19
Japan, Korea	8.21	3.31	3.55	0.3
Japan, Malaysia	16.02	19.96	7.38	0.09
Japan, Thailand	8.82	3.55	7.51	0.16
Korea, Malaysia	19.58	4.21	14.03	2.39
Korea, Thailand	21.30 [*]	5.76	8.19	2.69
Malaysia, Thailand	13.74	1.97	10.35	4.34
Critical values	19.96	9.24	19.96	9.24

III. Financial Market Integration in East Asia (3)

**Time-varying correlations
between US, Japan, and Asian market portfolio returns**

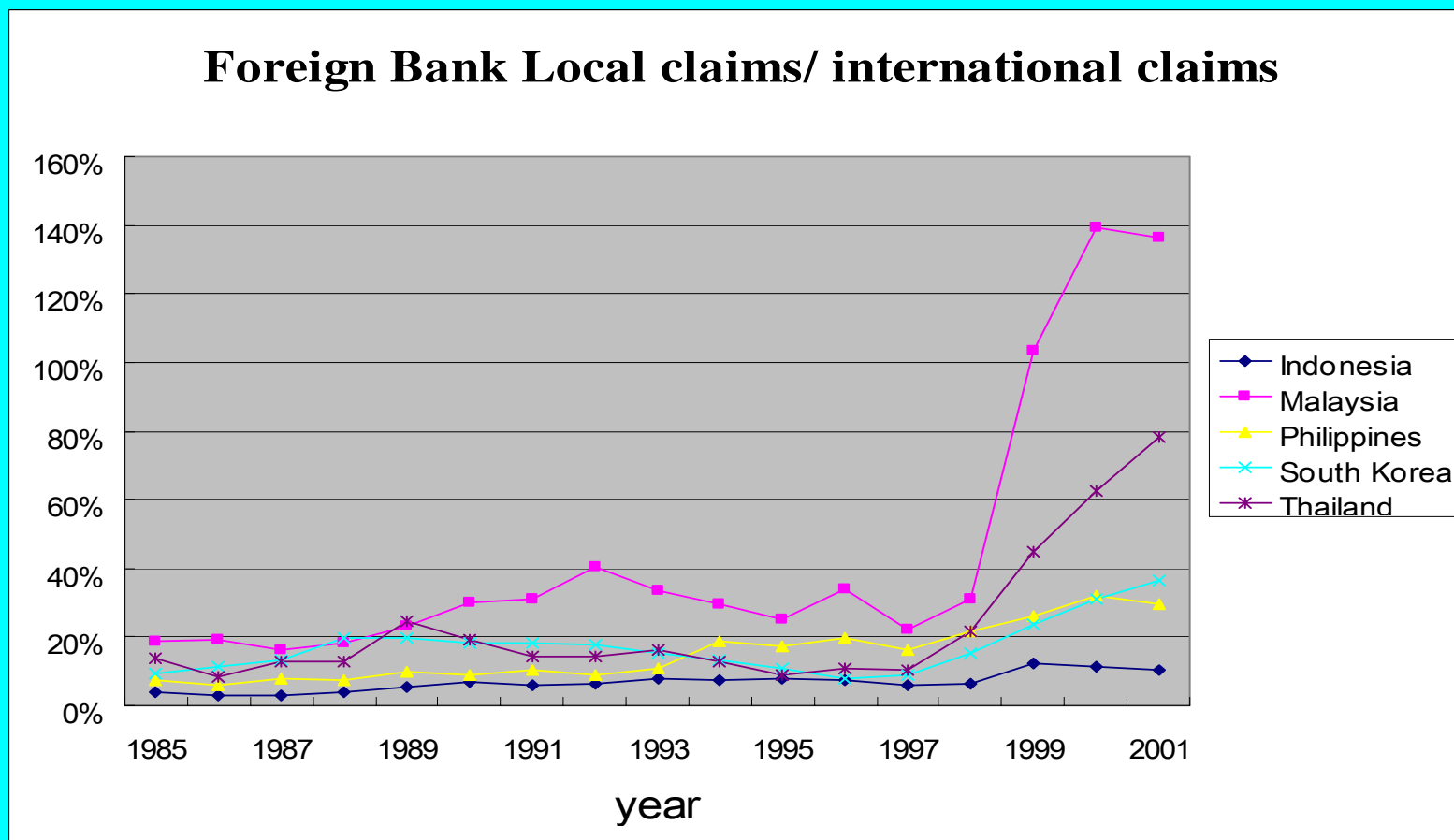


IV. Penetration of Foreign Financial Institutions in East Asian Financial Markets (1)



Source: BIS (2002)

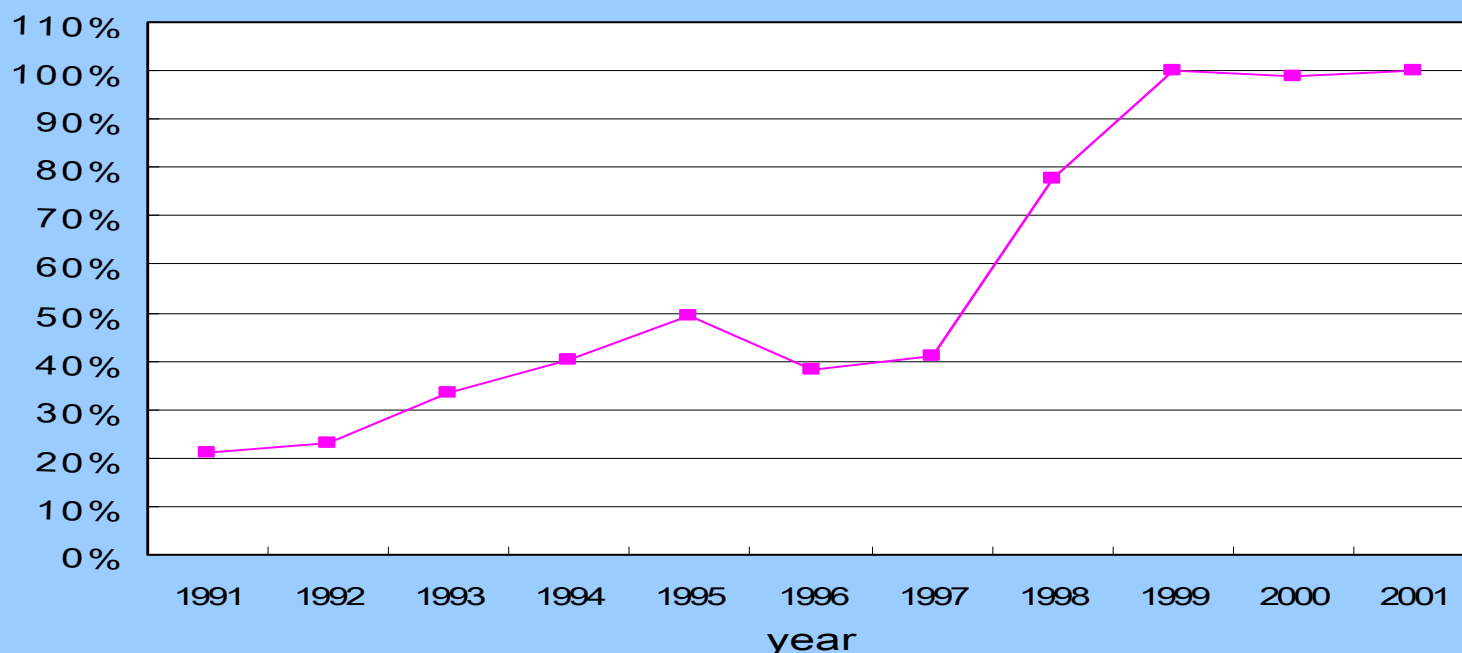
IV. Penetration of Foreign Financial Institutions in East Asian Financial Markets (2)



Source: BIS (2002)

IV. Penetration of Foreign Financial Institutions in East Asian Financial Markets (3)

**Proportion of Capital Markets financing
in East Asia's foreign Borrowing**



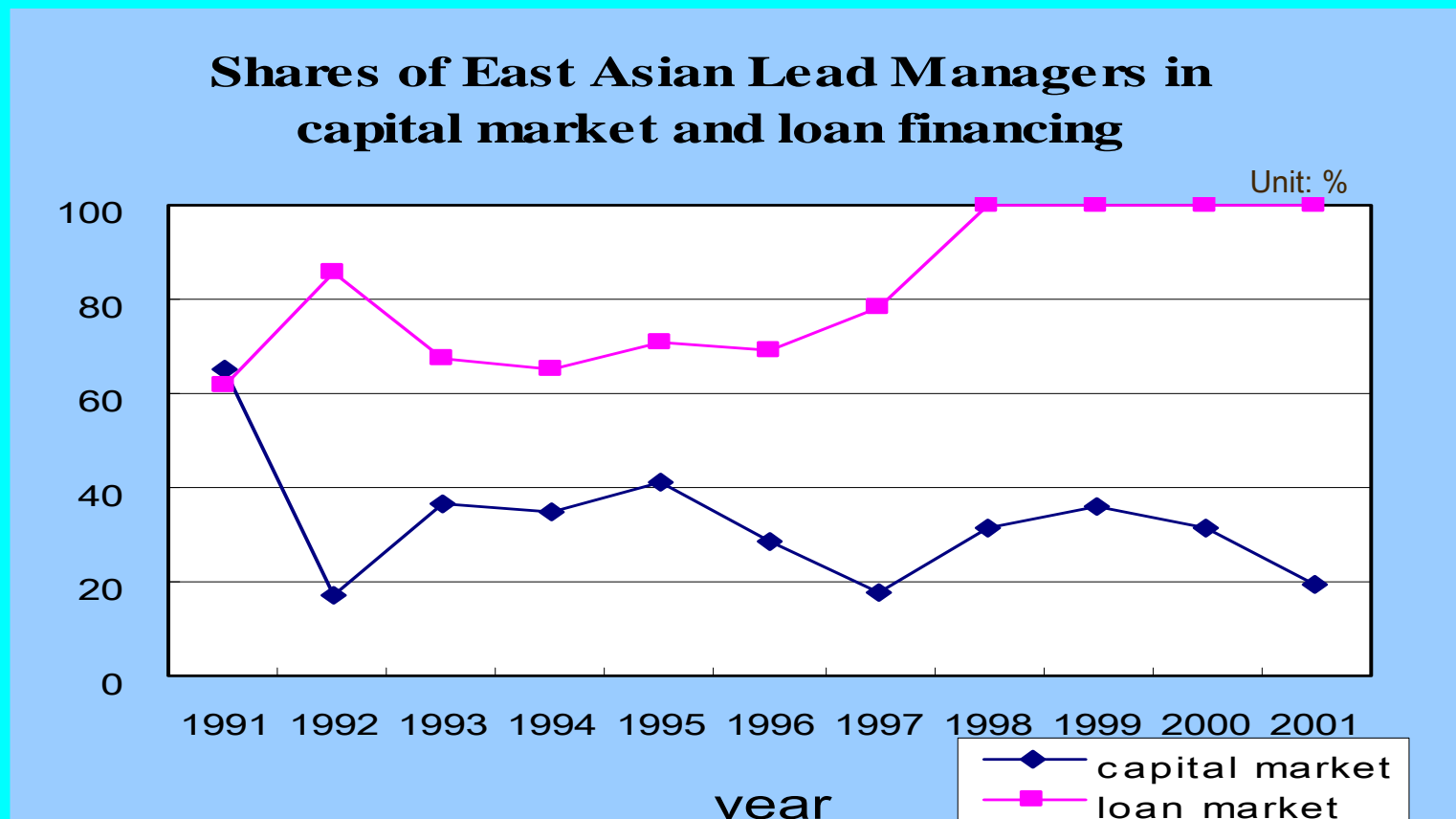
IV. Penetration of Foreign Financial Institutions in East Asian Financial Markets (4)

The Top 20 Investment Banks by Parent Country

	Function	Overall Results			Underwriting			Trading			Advisory	
Parent Country of Investment Banks												
		1996	2002		1996	2002		1996	2002		1996	2002
US		8	11		8	9		8	10		8	10
		(40)	(55)		(40)	(45)		(40)	(50)		(40)	(50)
UK		3	3		2	3		5	3		6	3
		(15)	(15)		(10)	(15)		(25)	(15)		(30)	(15)
Europe		7	5		7	6		6	7		6	7
		(35)	(25)		(35)	(30)		(30)	(35)		(30)	(35)
Japan		2	1		3	2		1	0		0	0
		(10)	(5)		(15)	(10)		(5)	0		0	0
Total No. of Investment Bank		20	20		20	20		20	20		20	20
		(100)	(100)		(100)	(100)		(100)	(100)		(100)	(100)

Source: Euromoney, January, 1996 and 2002

IV. Penetration of Foreign Financial Institutions in East Asian Financial Markets (5)



Source: Ministry of Finance, The Japanese Government (FDI)
BIS (Lending)

IV. Penetration of Foreign Financial Institutions in East Asian Financial Markets (6)

Distribution of lead managers by their parent country and financial instrument (1991-2001)

(Unit: million U.S dollars)

	Capital market financing				Loan financing	
	Bond	Equity	MTN	Total	Loan	Total
US	12234	7795	4500	24529	7213	31742
UK	18268	9849	13100	41217	7391	48608
Swiss	1019	237	0	1256	3068	4324
Other Europe	3864	1691	3917	9472	16526	25998
West Total	35385	19572	21517	76474	34197	110671
	(67)	(57)	(97)	(70)	(28)	(48)
Japan	8841	1337	0	10178	15440	25618
Singapore	1209	3015	0	4224	15072	19296
Hong Kong	5207	3908	550	9665	18167	27832
Other Asia	2014	6390	57	8461	39052	47513
Asia Total	17271	14650	607	32528	87730	120258
	(33)	(43)	(3)	(30)	(72)	(52)
Total	52657	34222	22124	109003	121927	230930
	(100)	(100)	(100)		(100)	(100)

Source: Thomson Financial SDC database.

IV. Penetration of Foreign Financial Institutions in East Asian Financial Markets (7)

List of top 20 lead managers before and after the East Asian currency crisis

(Unit: million U.S dollars)

1991-1997			
Country	Amount	No.	
US	23780	10	(50)
UK	7733	5	(25)
Swiss	1515	1	(5)
Other Europe	1739	1	(5)
West Total	34767	17	(85)
Japan	5164	2	(10)
Singapore	0	0	0
Hong Kong	0	0	0
Other Asia	1186	1	(5)
Asia Total	6351	3	(15)
Total	41118	20	(100)

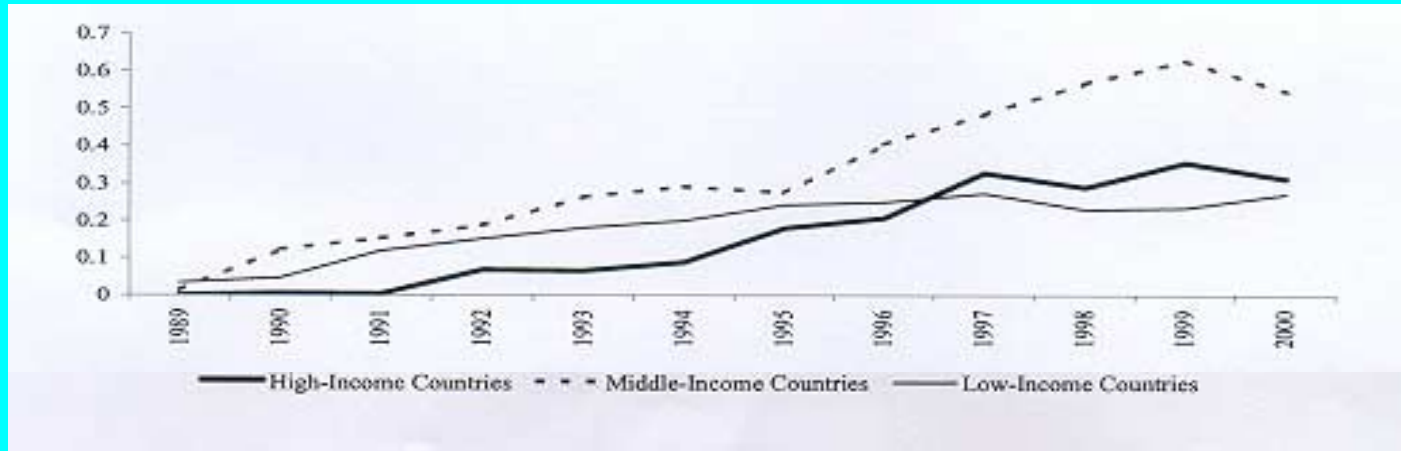
1998-2001			
Country	Amount	No.	
US	16026	12	(60)
UK	2086	3	(15)
Swiss	2322	2	(10)
Other Europe	500	1	(5)
West Total	20934	18	(90)
Japan	550	1	(5)
Singapore	0	0	0
Hong Kong	0	0	0
Other Asia	704	1	(5)
Asia Total	1254	2	(10)
Total	22188	20	(100)

V. Causes of Foreign Dominance

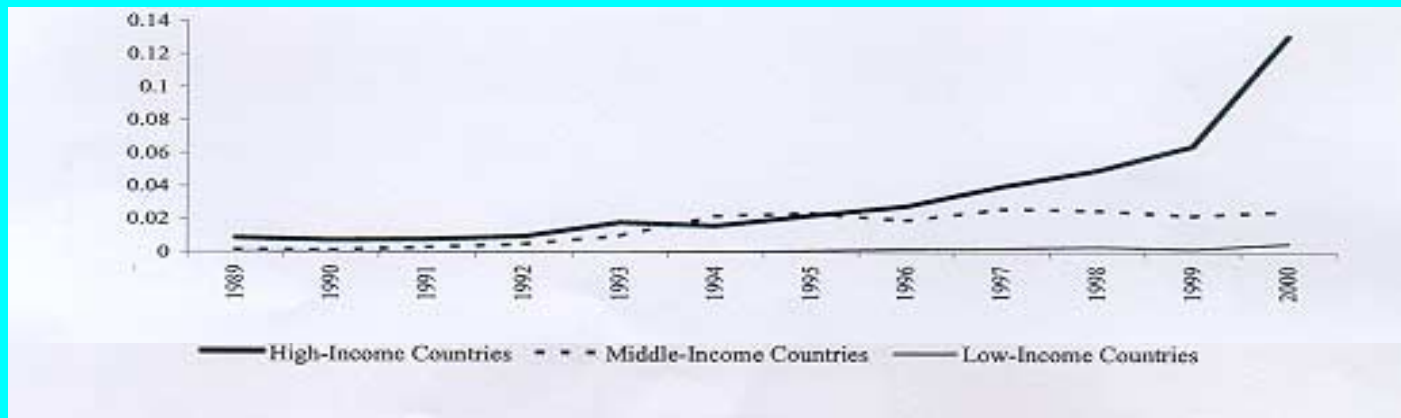
- Financial Globalization
- Underdevelopment of Capital Markets
- Lack of Harmonization of legal, regulatory, and tax systems.
- Saving-Investment Profiles
 - : Intermediation through International financial market.

Internationalization of Stock Markets

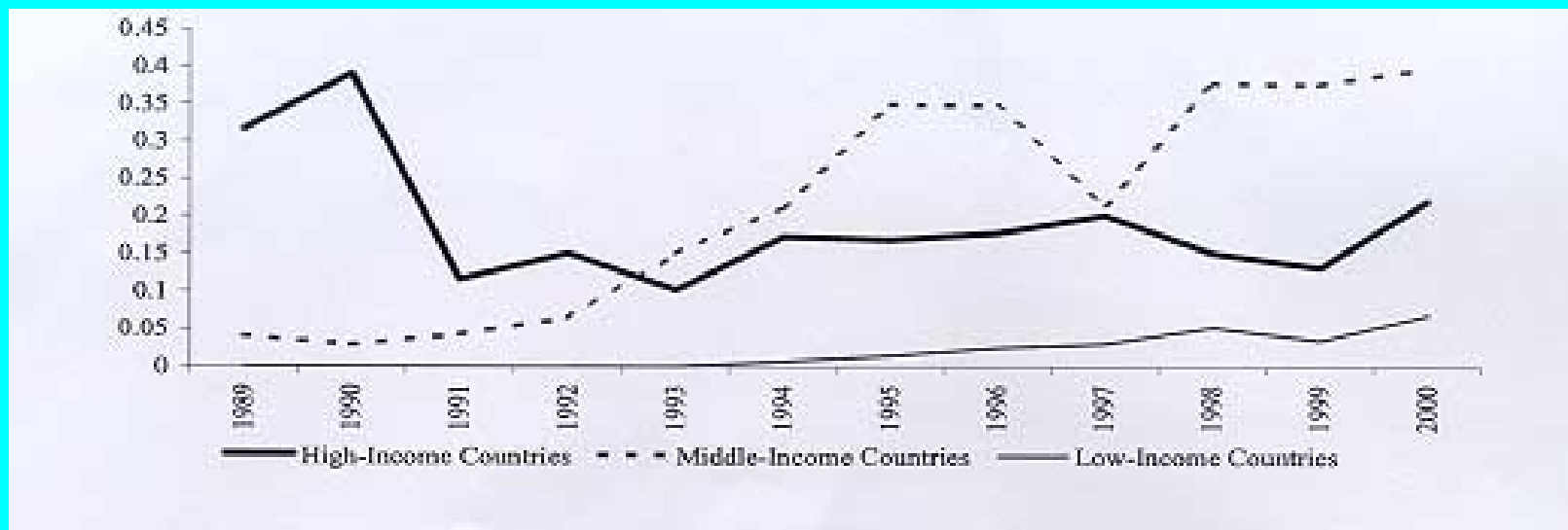
Market Capitalization of International Firms/ Market Capitalization of all Firms



Value Traded Abroad /GDP



Value Traded Abroad /Value Traded Domestically



Note: This figure shows the evolution over time of the ratio of market capitalization of firms with international listings over total market capitalization and the ratio of value traded abroad over GDP and over total value traded domestically. The value traded abroad data are computed by aggregating firm-level data from Bank of New York. The series are average across countries grouped by income level, following the classification of the World Development Indicators, World Bank

Source: Claessens, Klingebiel, and Schmukler (2002)