

Navigating Financial Stability in an Evolving Global Financial System: Globalization, Market Integration and Rising Geopolitical Risks

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Overview

- I. Regional Capital Market Integration: Definition & Models**
- II. ASEAN Equity Markets 2010-2016**
- III. ASEAN Capital Market Forum (ACMF) and 2015-2020 Action Plan**
- IV. ADB's Support for regional integration**
- V. Conclusion and Food For Thought**

What does Regional Capital Market Integration Mean?

Investor

Can buy and sell securities in any stock market without restriction

Intermediaries

Can offer their services throughout the region without restriction

Regulators

Cooperation ranging from information sharing to joint enforcement

Companies

Can raise capital anywhere in the region & cheaper financing given lower transaction costs

Models of Integration

Single Undertaking

Variable Geometry

Critical Mass

ASEAN

Create enabling conditions for access based primarily on mutual recognition.

Supported by some essential harmonization and a greater freedom for capital movements

EU

Focus on harmonization of conditions for cross border access in terms of laws, and regulations.

Supported by mutual recognition in any sectors that are not subject to harmonization & by liberalization measures.

ASEAN EQUITY MARKETS 2016

Different Stages of Development

- ❖ Among Southeast Asian countries, big differences exist in terms of market cap, total value share of trading & turnover velocity

	Domestic Market Cap (\$ Million)	Number of listed companies	Average Turnover Velocity (domestic)
Indonesia	425,768	537	22.4%
Malaysia	359,788	903	26.9%
Philippines	239,738	265	14.5%
Singapore	640,428	757	31.9%
Thailand	432,956	656	80.9%

Why ADB is interested in regional capital market integration

Benefits

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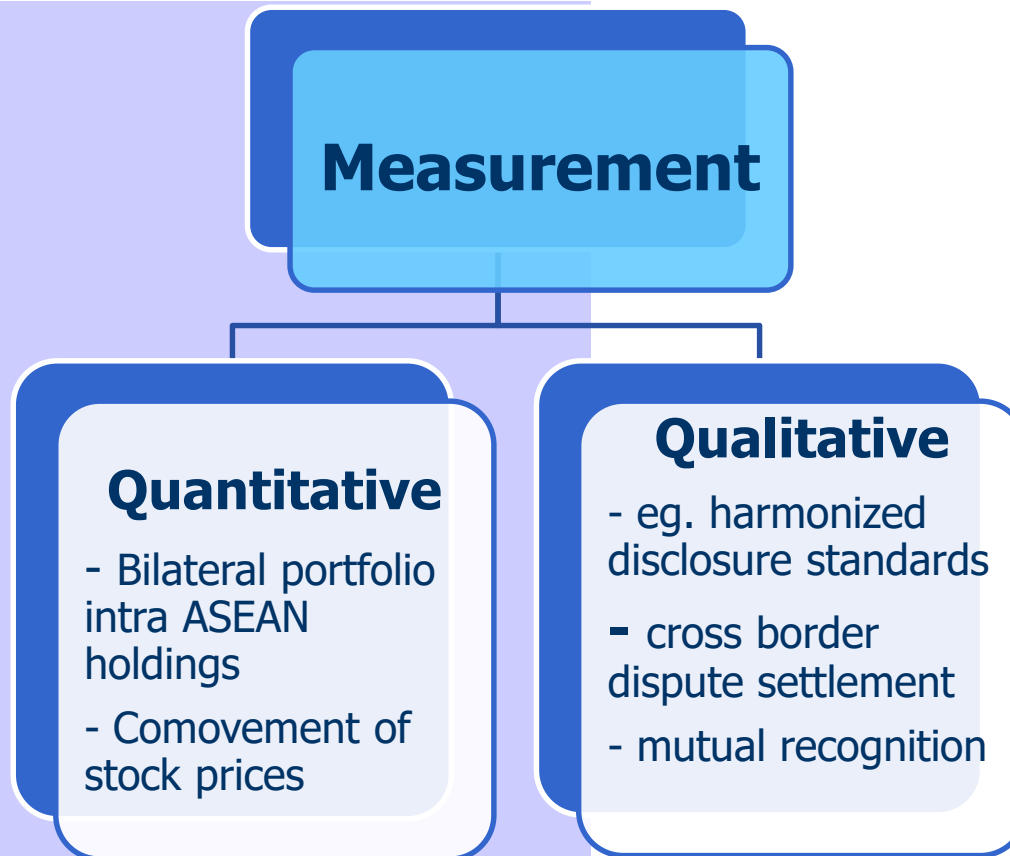
Outcome:

Freer flow of funds through cross border investments promotes economic growth in DMCs. ASEAN as a regional block provides market size in competing against other regional players

Process:

- (i) learn from international best practices
- (ii).getting standards/practices upgraded through harmonization
- (iii) capacity building support
- (iv) building trust in the region, regional interest vs national interest
- (v) expedited capital market development

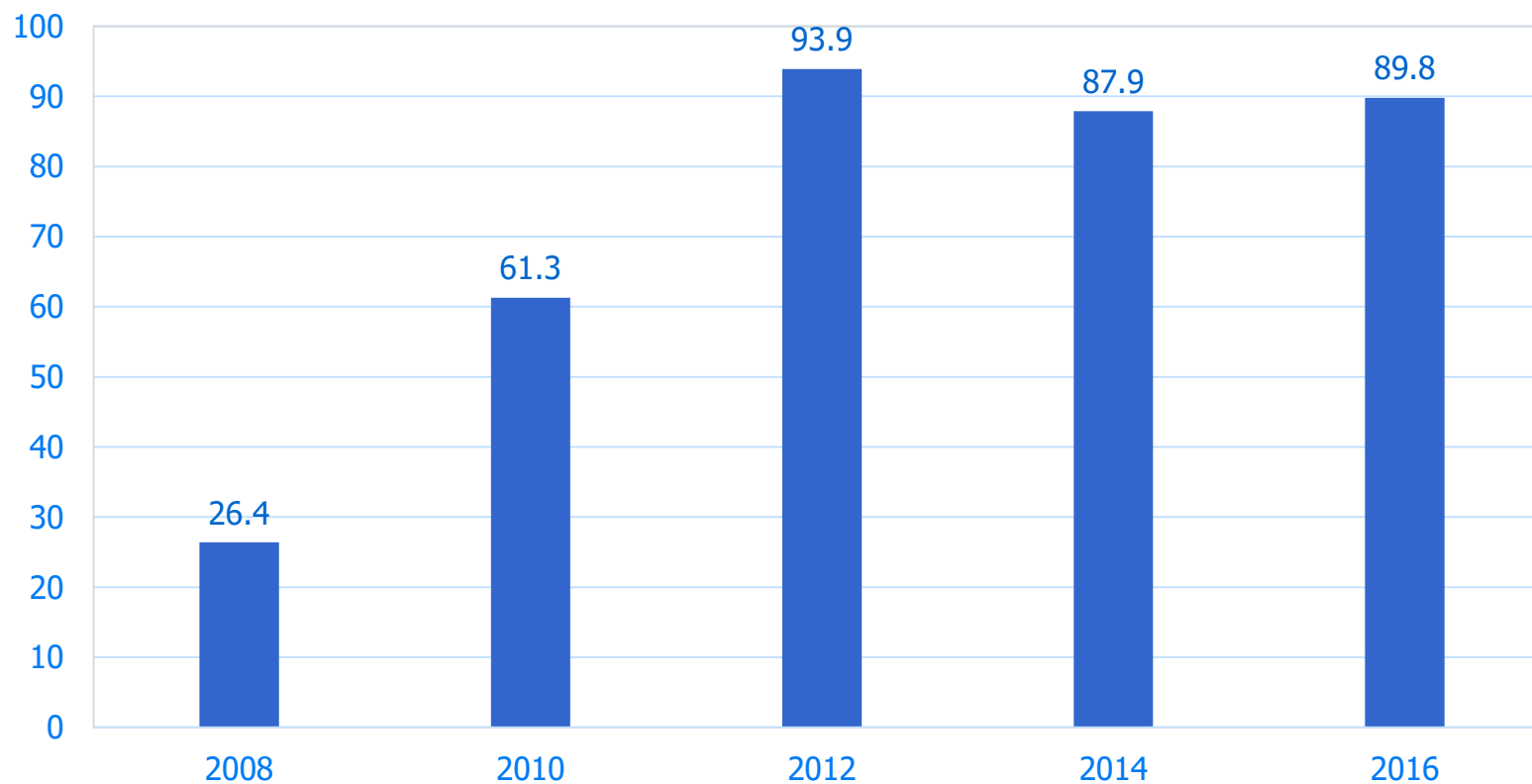
How do We Measure Regional (Equity) Market Integration?



Provided all other variables are constant, decrease in transaction costs between two financial markets increases demand for assets

Intra ASEAN Portfolio Investment has been increasing...

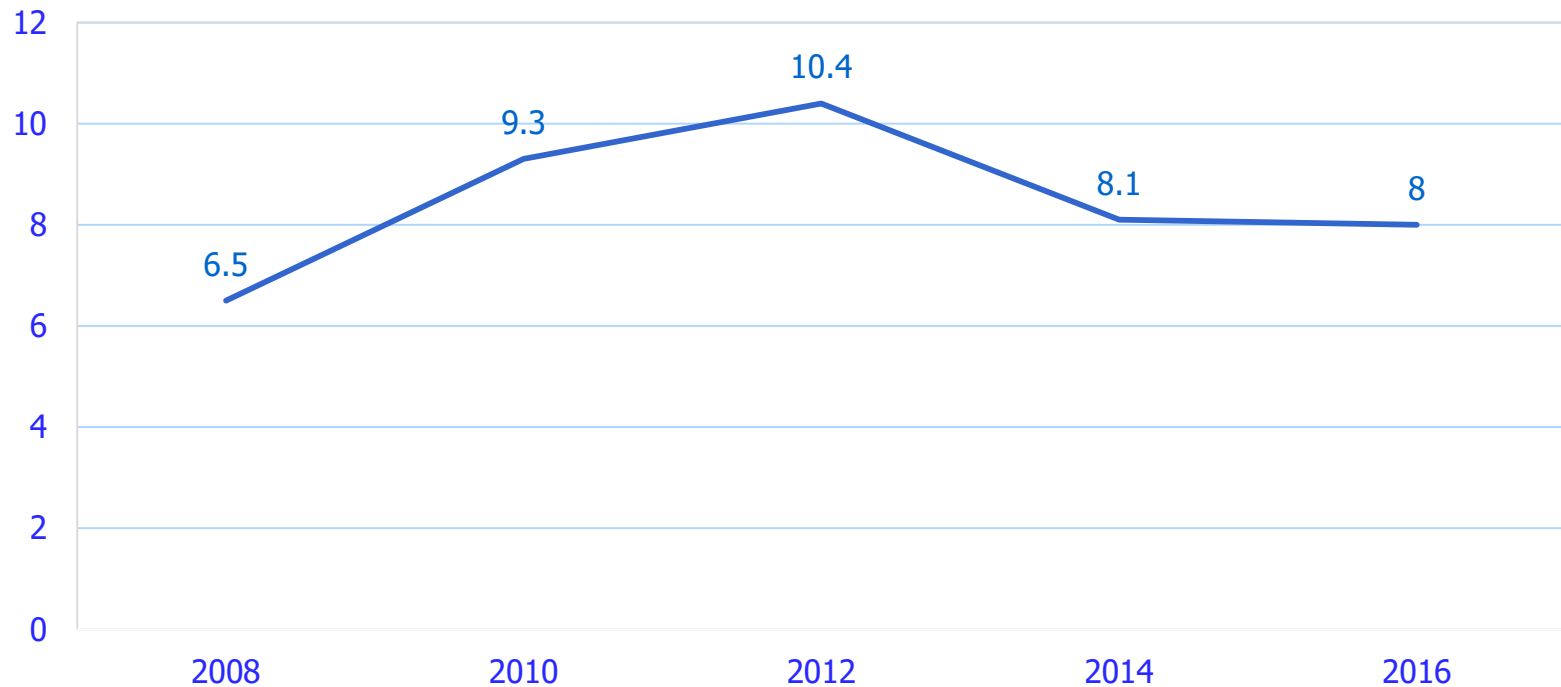
Intra ASEAN-5 Portfolio Investment (\$ Billion)



Source: CPIS Data, IMF website 2008 - 2016

But intra ASEAN portfolio investment as % of total investment has not been improving much

Percentage of Intra ASEAN 6 Investment



The low intra ASEAN equity investment reflects the same integration dynamics with intra East Asian investments which is also relatively lower compared to total investments. This suggests that more needs to be done for ASEAN regional capital market integration

Source: Author's calculation based on CPIS Data,

ASEAN Capital Market Forum (ACMF)



ACMF



ASEAN CAPITAL MARKETS FORUM

www.theacmf.org

- The ACMF was established in 2004 to develop a deep, liquid and integrated regional capital market to meet the objectives of the ASEAN Economic Community (AEC)
- Consist of Heads/Chairs of capital market regulators in ASEAN and OJK is a founding member

ASEAN Capital Market Action Plan 2016-2020

(endorsed by the ASEAN Finance Minister April 2016)



Source: ACMF's website

Key Priorities & Initiatives in Action Plan

Key Priorities	Initiatives
Improve regional market infrastructure and connectivity	i) ASEAN Investment Link and ii) capacity building for regulators
Drive more cohesiveness in regulations and practices	i) ASEAN disclosure standards; ii) Common streamline prospectus review framework; and iii) information sharing for cross border supervision
Promote ASEAN asset classes	i) ASEAN collective investment scheme framework and ii) ASEAN index
Foster better mobility for professionals	Review comparability and equivalence of qualifications towards mobility of professionals
Attract greater investor participation	i) ASEAN Dispute Resolution and Enforcement Mechanism and ii) review ASEAN CG scorecard for CG assessment of PLCs
Promote greater stakeholder interaction, co-operation and co-ordination	i) Permanent ASEAN secretariat and ii) ASEAN industry consultative panel

ADB's Support for regional capital market integration

- 2001: TA for Strengthening Asian Financial Market
- 2005: TA for Supporting enhanced cooperation among Southeast Asian Equity Markets – Output: ASEAN Strategic Alliance Framework
- 2008: TA for Strengthening Southeast Asian Financial Market – Output: Framework on Implementation Plan 2015
- 2011: TA Promoting ASEAN Capital Market Integration
Output: Implement initiatives in the 2015 Plan
- 2016: TA Enhancing ASEAN Capital Market Integration
Output: Implement 2015-2020 Action Plan

Conclusion & Food for Thought

- ❖ Despite making headlines, the momentum for globalization and integration will continue. Countries will become more connected. However integration should be inclusive and benefit all segments of society.
- ❖ Financial integration and trade integration are complimentary processes. Trade integration can be a stabilizing factor that reduces the likelihood of a financial crisis that can be increased by financial integration.
- ❖ Intra ASEAN investment has been growing although as a percentage of total investment has remained below 10%. Capital will flow to where it is most efficient and attractive. Further growth depends on tighter integration (horizontally across countries and vertically across sectors)
- ❖ The integration process is established with the 2015-2020 Action Plan as the compass. Next step is implementation of activities based on agreed timeline.

THANK YOU