

Discussions for “Challenges for Asian Exchanges”

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Why Asian Countries Need to Develop Local Exchange Markets?

- Lessons from the Asian Crisis in 1997
- Vulnerability of the financial system was responsible for the Asian Crisis in 1997.
- Asian economies' financial systems had structural problems in unorganized and immature systems and supervision.

Structural problems in East Asian financial markets before the Asian Crisis in the late 1990s

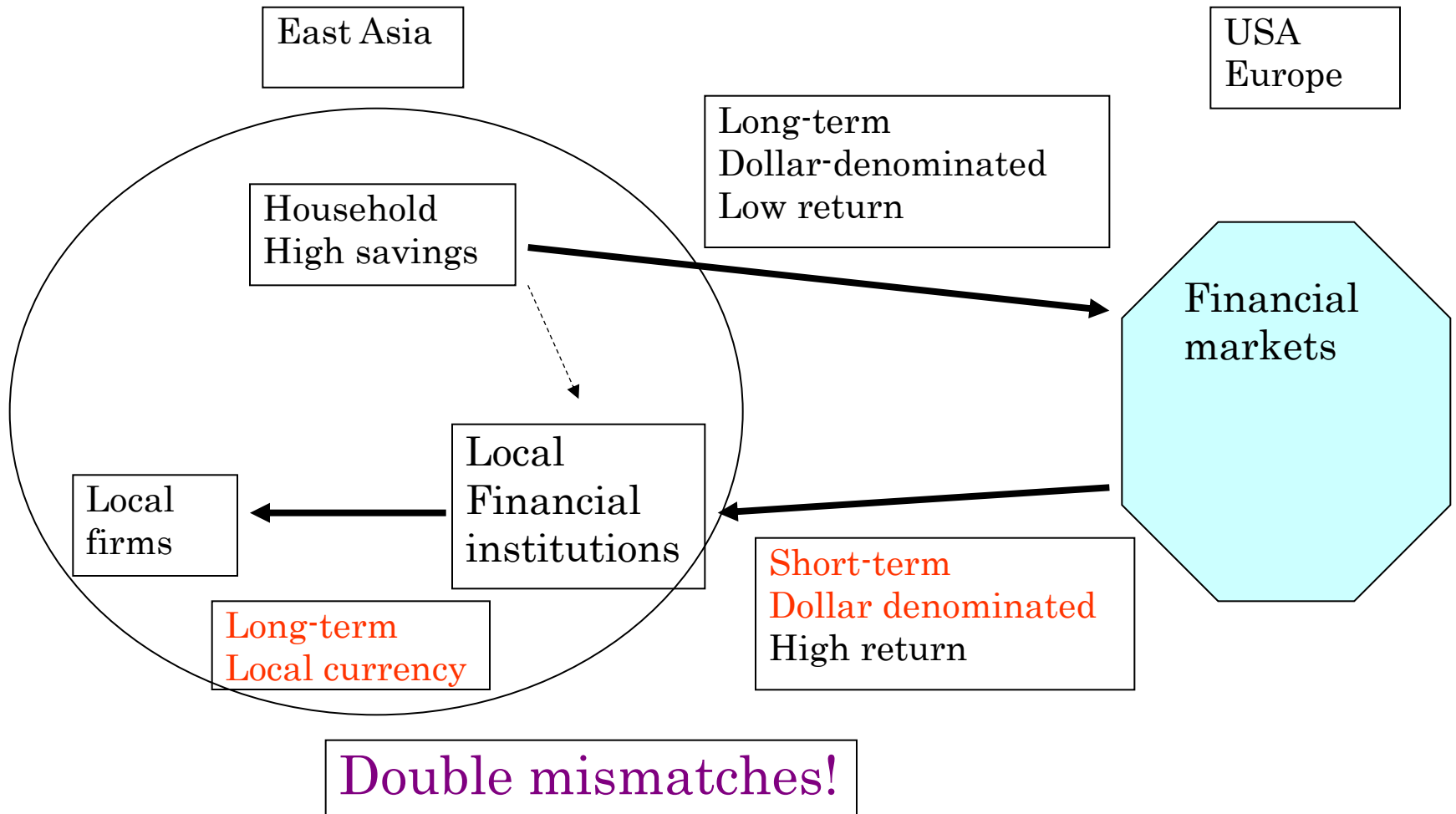
(1) International capital flows and Double mismatches

- Currency mismatch
- Maturity mismatch

(2) “Crony capitalism”

- Corporate control by a particular family will result in the strengthening of (collusive) relationships with government agencies and government officials through lobbying activities.
- Implicit government guarantees might have created inefficient allocation of funds.

International capital flows in Asia



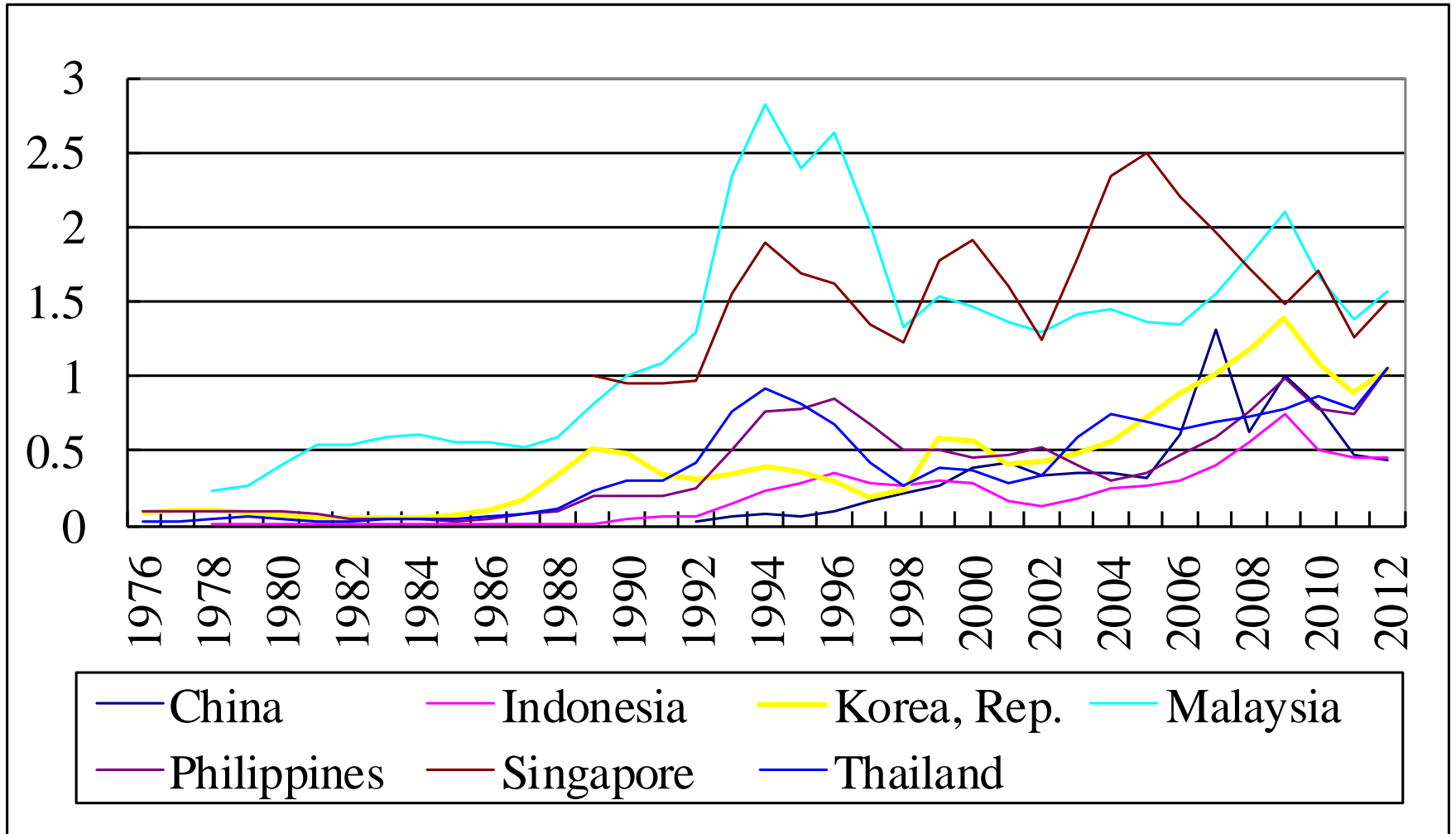
Ownership Structures of East Asian Listed Companies

	No. of	Family- owned	State-owned	Financial	Non-financial
	Companies	company	company	institution	company
Hong Kong	330	66.7	1.4	5.2	19.8
Indonesia	178	71.5	8.2	2.0	13.2
South Korea	345	48.4	1.6	0.7	6.1
Malaysia	238	67.2	13.4	2.3	6.7
The Philippines	120	44.6	2.1	7.5	26.7
Singapore	221	55.4	23.5	4.1	11.5
Taiwan	141	48.2	2.8	5.3	17.4
Thailand	168	61.6	8.0	8.6	15.3

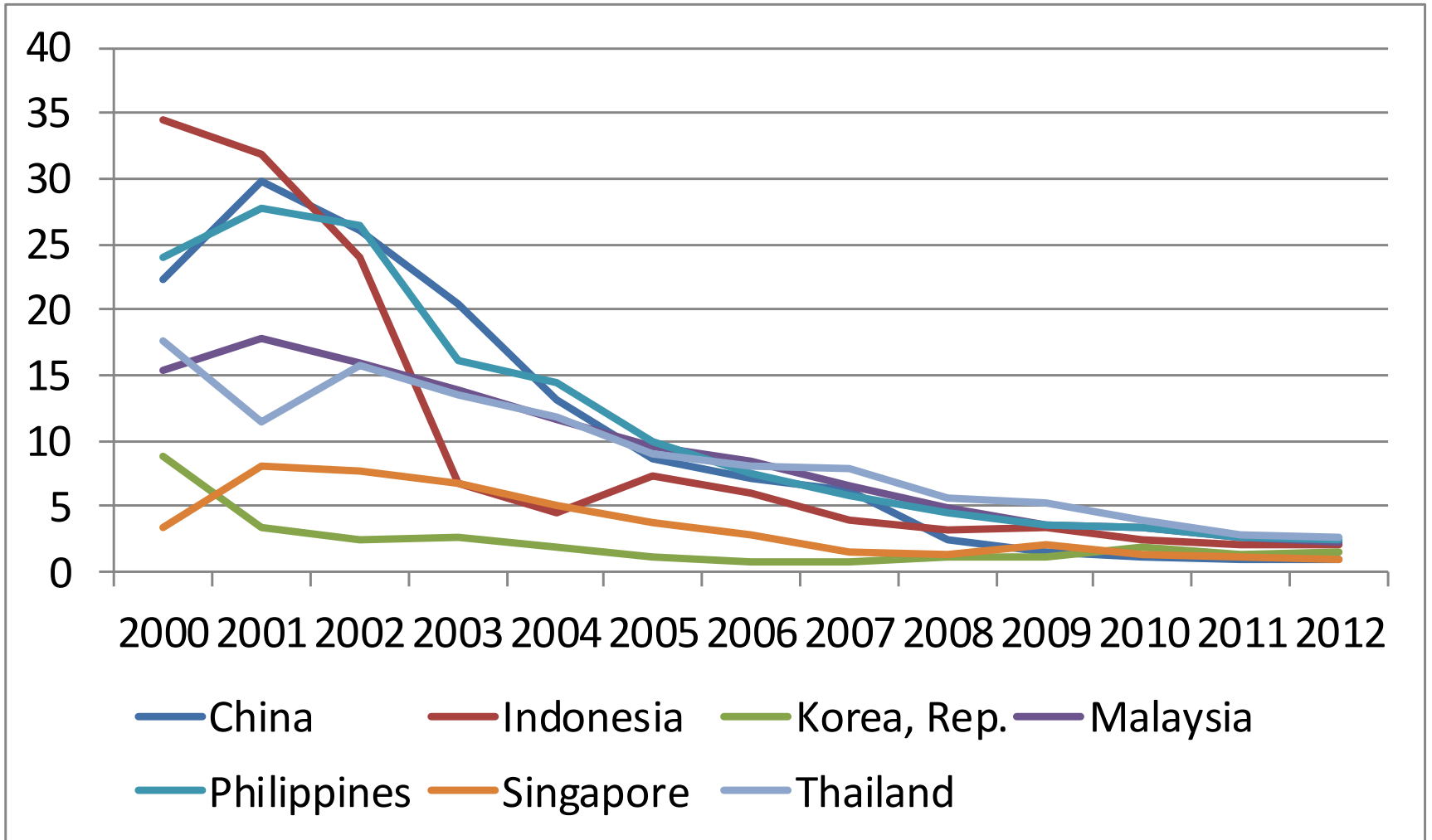
Evolution of financing in Asia

- Asian emerging economies traditionally relied heavily on either bank lending or internal markets.
- Bond and stock markets had been less developed until the 1990s.
- However, after the crisis, most East Asian countries accelerated liberalization of financial system.
- The traditional financial systems changed dramatically in many Asian emerging economies in the 2000s.

Stock market capitalization per GDP



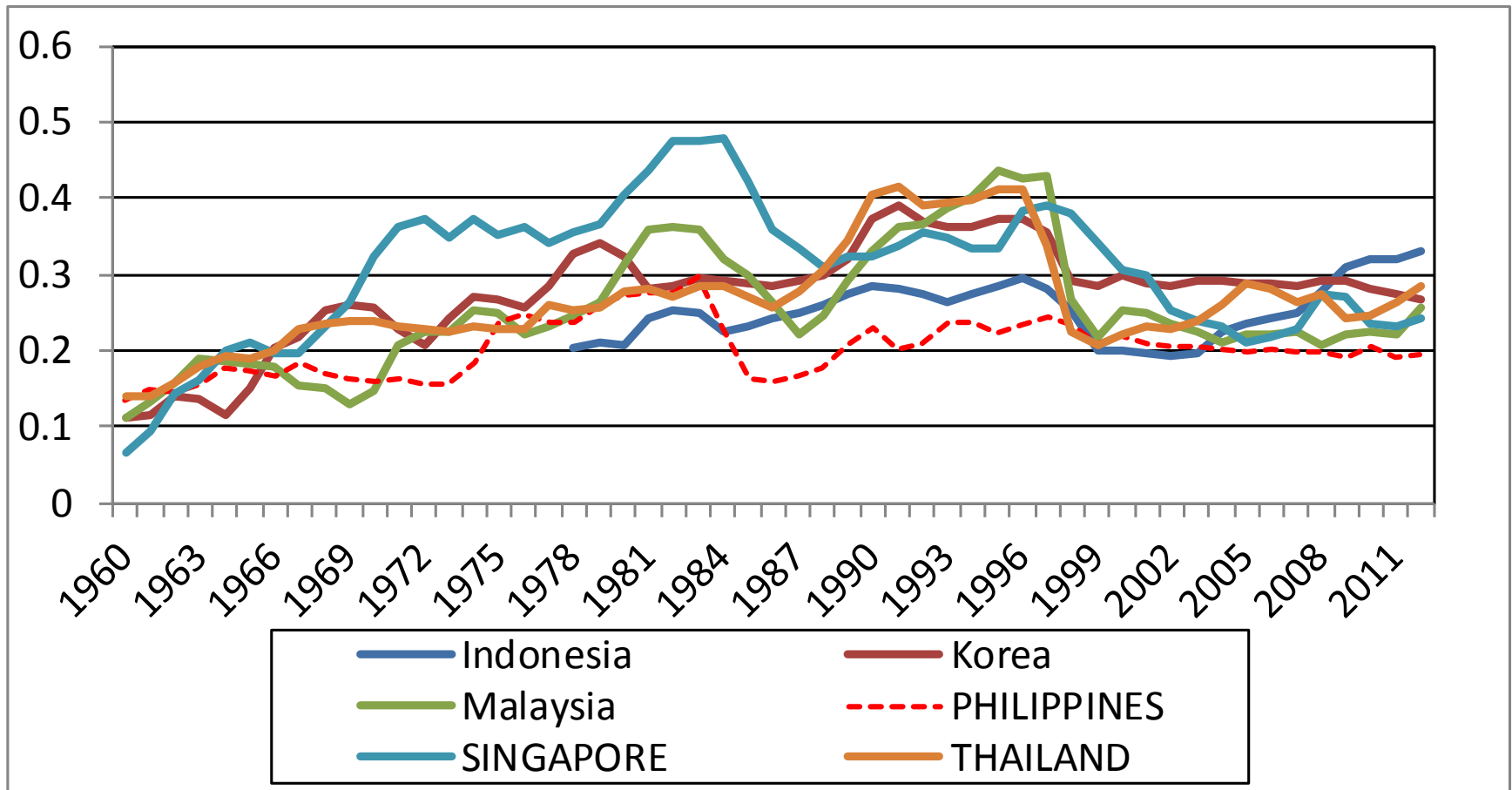
Non-Performing Loan Ratio (%)



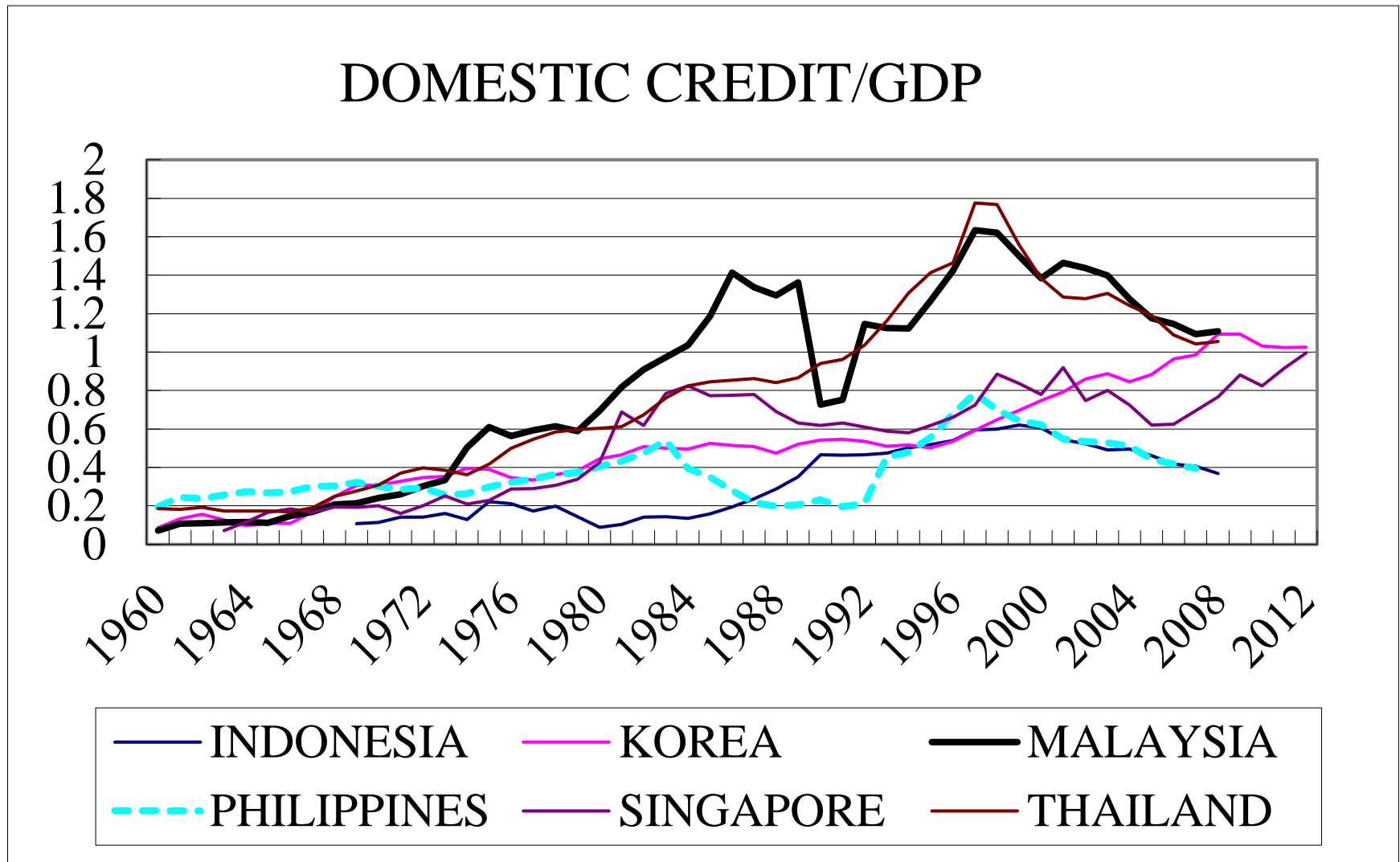
Asian emerging economies in 2000s

- Accompanied by liberalization, the role of open markets increased in the 2000s.
- Banking sector became sound and healthy in the 2000s.
- However, despite the reform, investment rates remained low throughout the 2000s.
- The persistent stagnation of capital accumulation happened even under recovery in the early 2000s.
- Middle-income trap?

The Investment Ratios in selected East Asian countries



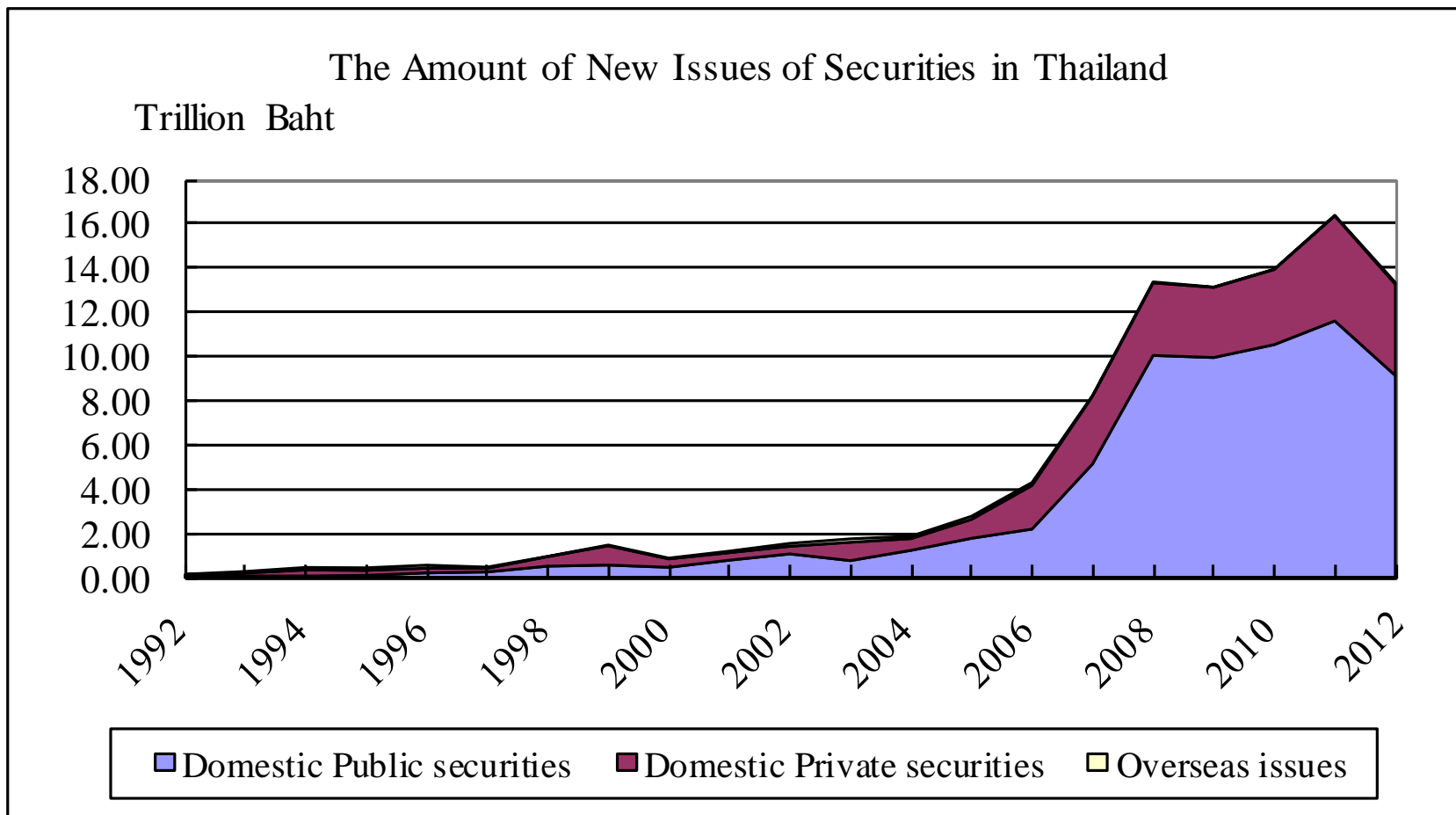
The ratio of domestic credit to GDP in selected East Asian countries



Thailand: new issuances of securities

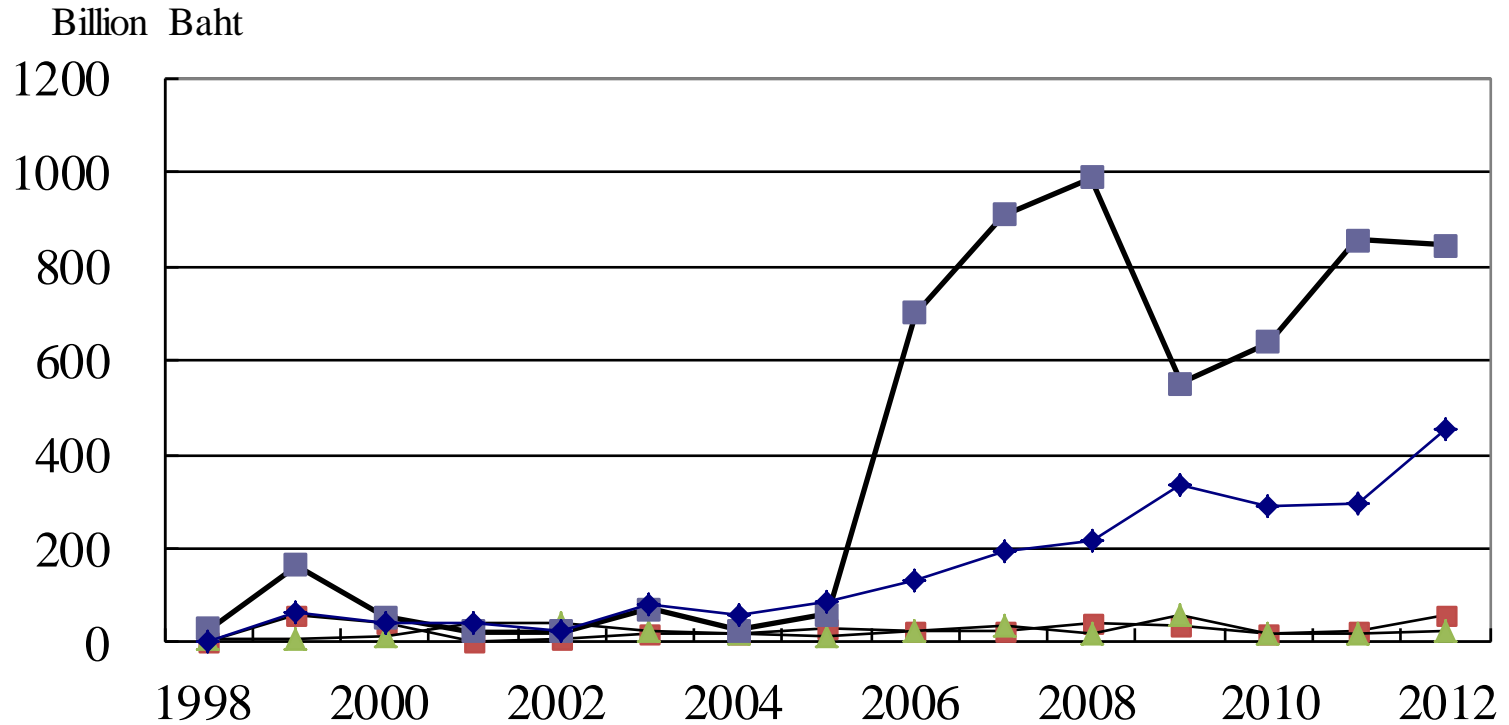
- Remarkable increases in new issuances of securities.
- But public securities explain nearly 75%.
- In addition, new issuances of private securities increased mainly because the financial sector increased the new issuances.

New issuances of securities and its components in Thailand



Thailand

New Issuance of Private Debt Securities by Sector



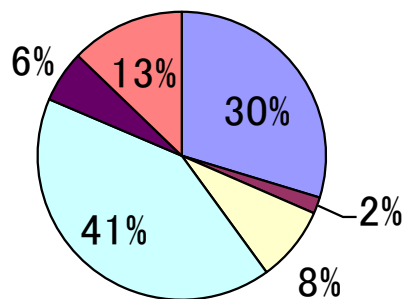
- Construction
- ▲— Communications and transport
- Banking, finance, insurance and leasing
- ◆— Other sectors

Thailand: the shares of new domestic private securities issue

- In new debt issue, the shares of financial intermediation sector, which exceeded 50% in 2005, became 70% in 2012.
- New private equities were issued more in the manufacturing sector than in the financial sector in 2005.
- However, in 2010, new private equities were issued more in the real estate activities than in the manufacturing sector in 2010.

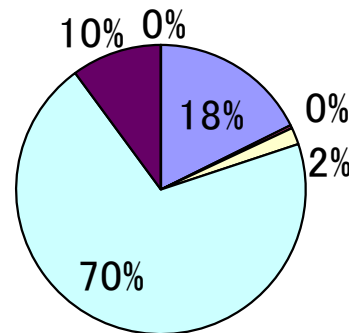
The shares of new domestic private securities issue in Thailand (1) Private debt

2005



- Production
- Construction
- Transportation
- Financial Intermediation
- Real Estate activities
- Others

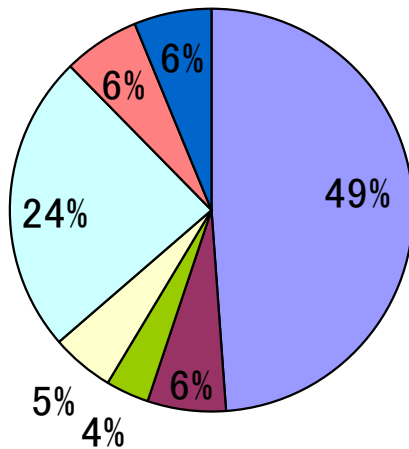
2012



- Production
- Construction
- Transportation
- Financial Intermediation
- Real Estate activities
- Others

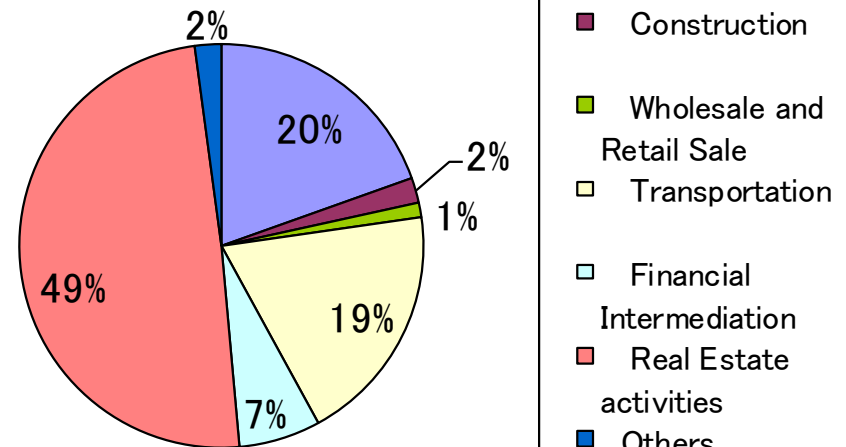
The shares of new domestic private securities issue in Thailand (2) Private equity

2005



- Production
- Construction
- Wholesale and Retail Sale
- Transportation
- Financial Intermediation
- Real Estate activities
- Others

2010

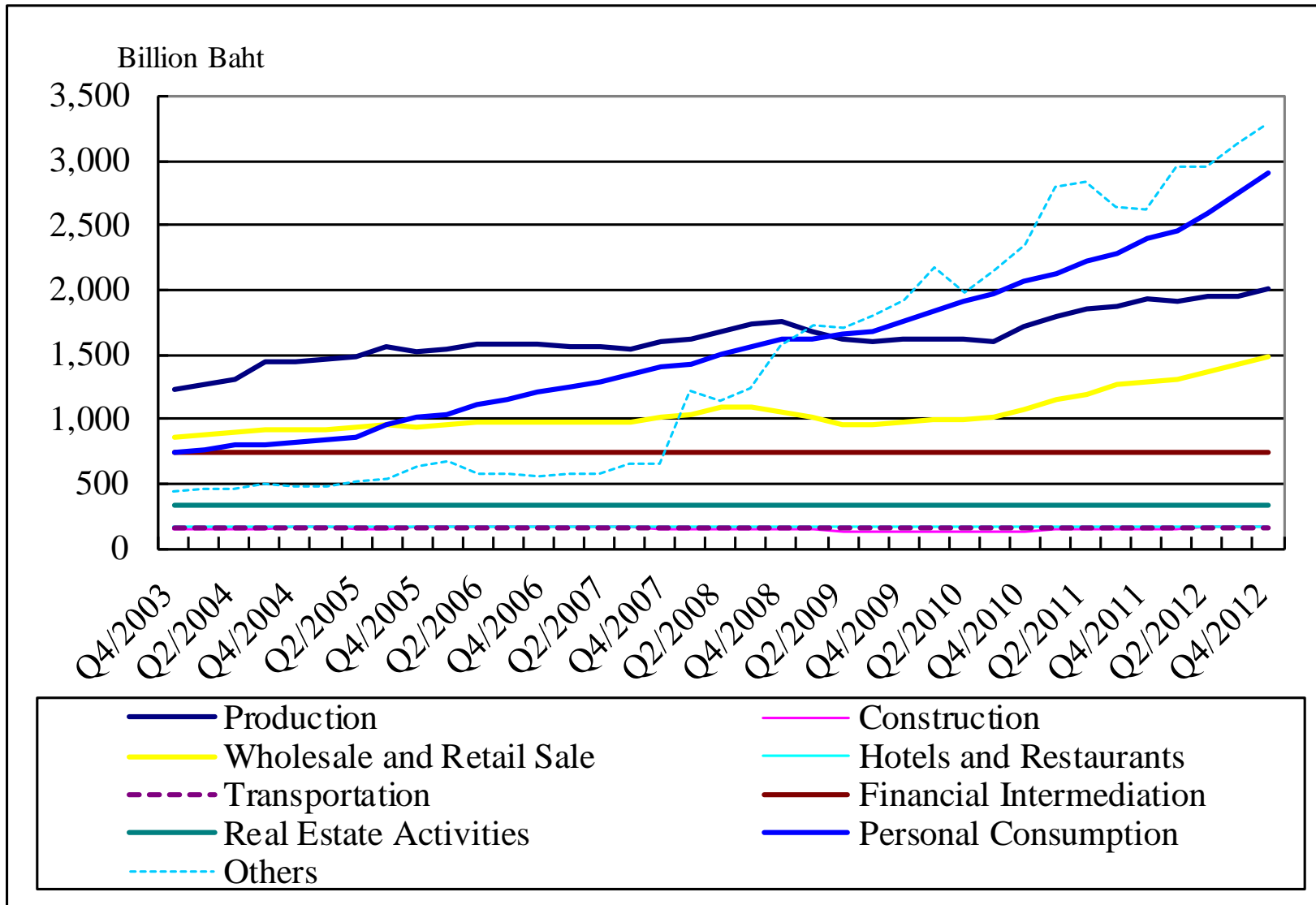


- Production
- Construction
- Wholesale and Retail Sale
- Transportation
- Financial Intermediation
- Real Estate activities
- Others

Thailand: Commercial banks' credits

- Banks' credits to manufacturing sector, which was 1.3 billion Baht in 2004 increased to 2 billion Baht in 2012.
- But, the increases were less dramatic than those of debt securities by the financial sector during the same period.
- Personal consumption became one of the most important destinations of commercial banks' credits in 2010.

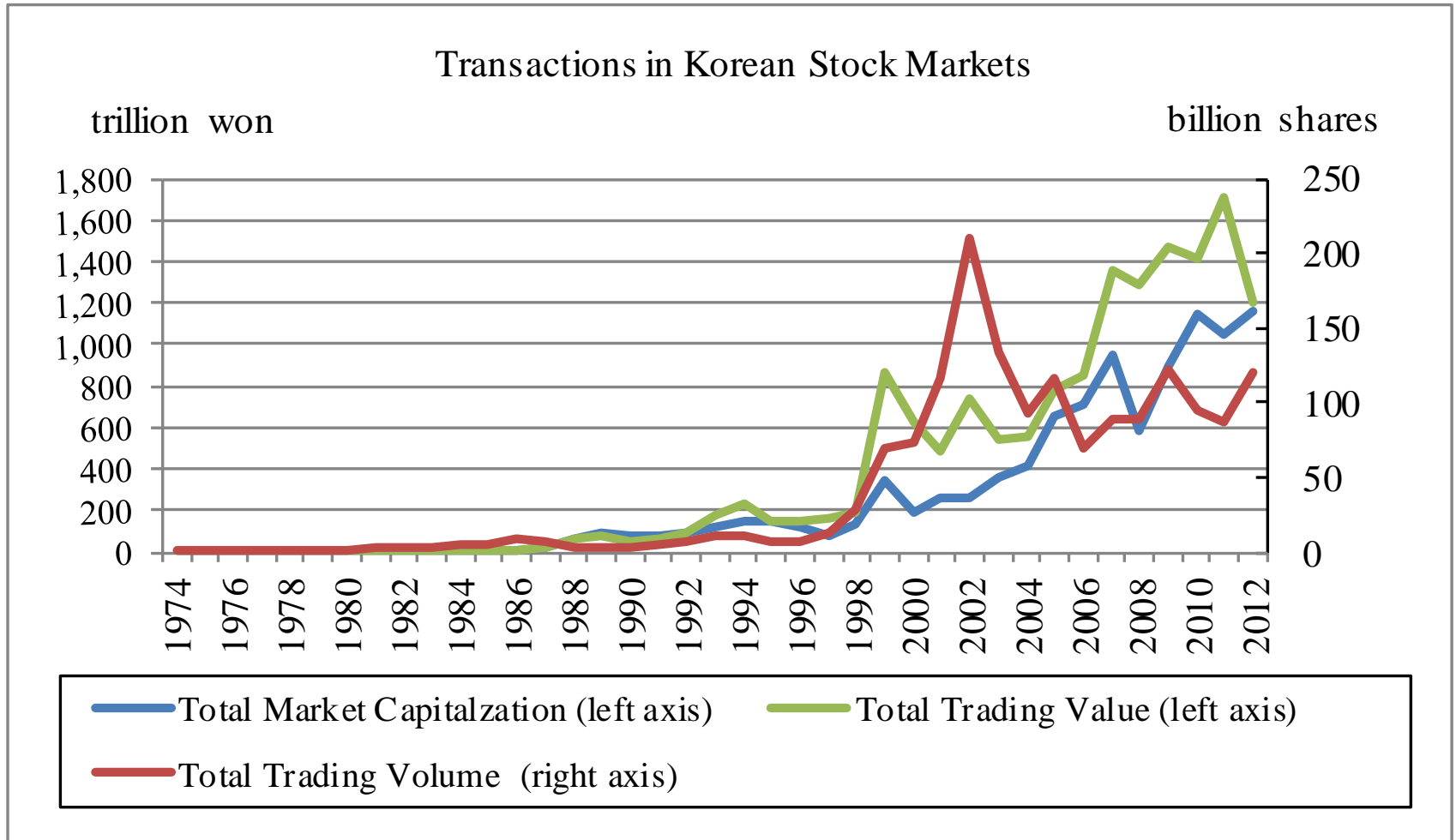
Commercial banks' credits classified by type of business in Thailand



Korea: stock markets and bond markets

- There was substantial development in Korean stock markets after the Asian crisis.
- There was no conspicuous financial development in Korean bond markets after the Asian crisis.

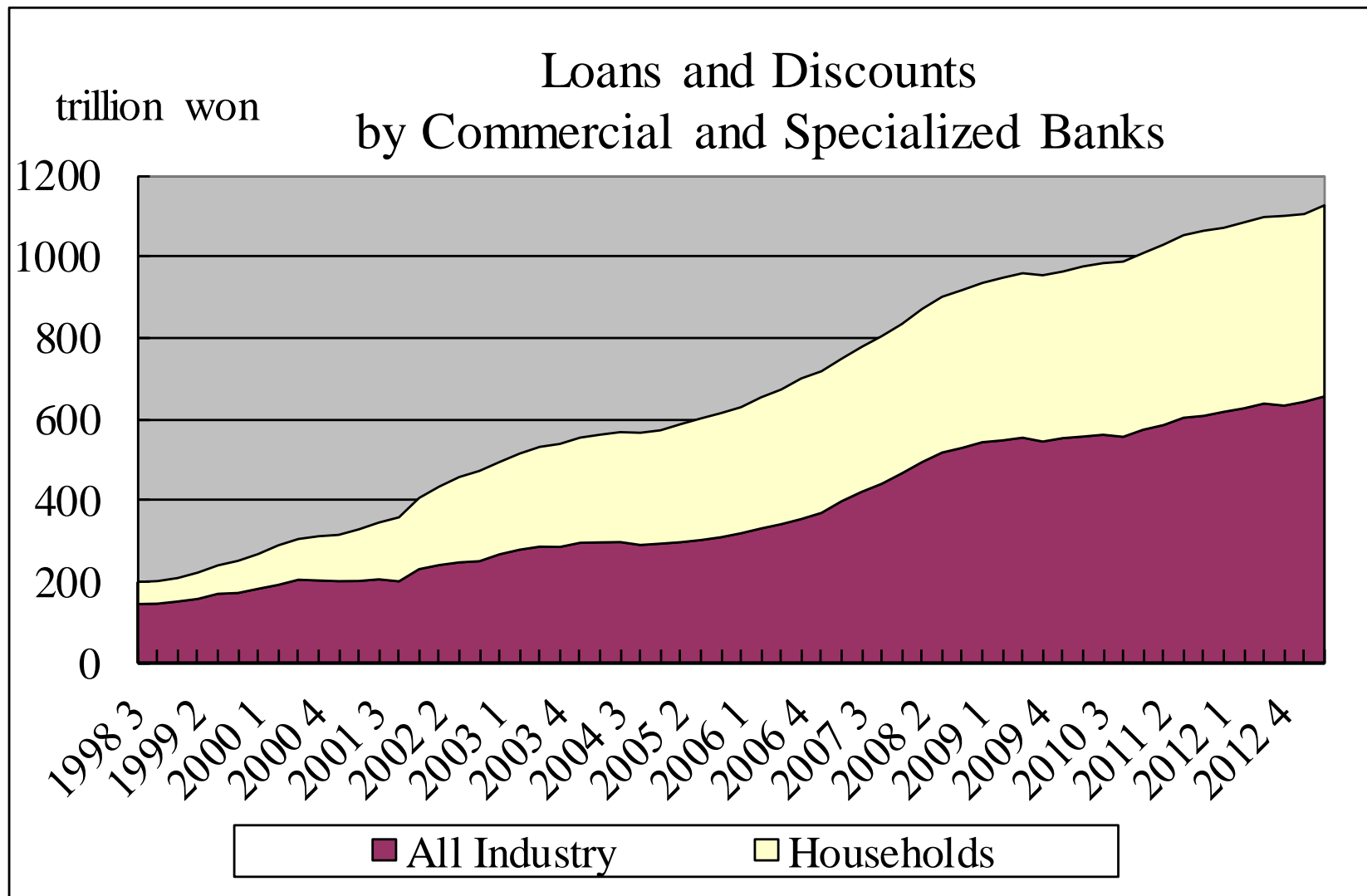
The volume of transactions in Korean stock markets



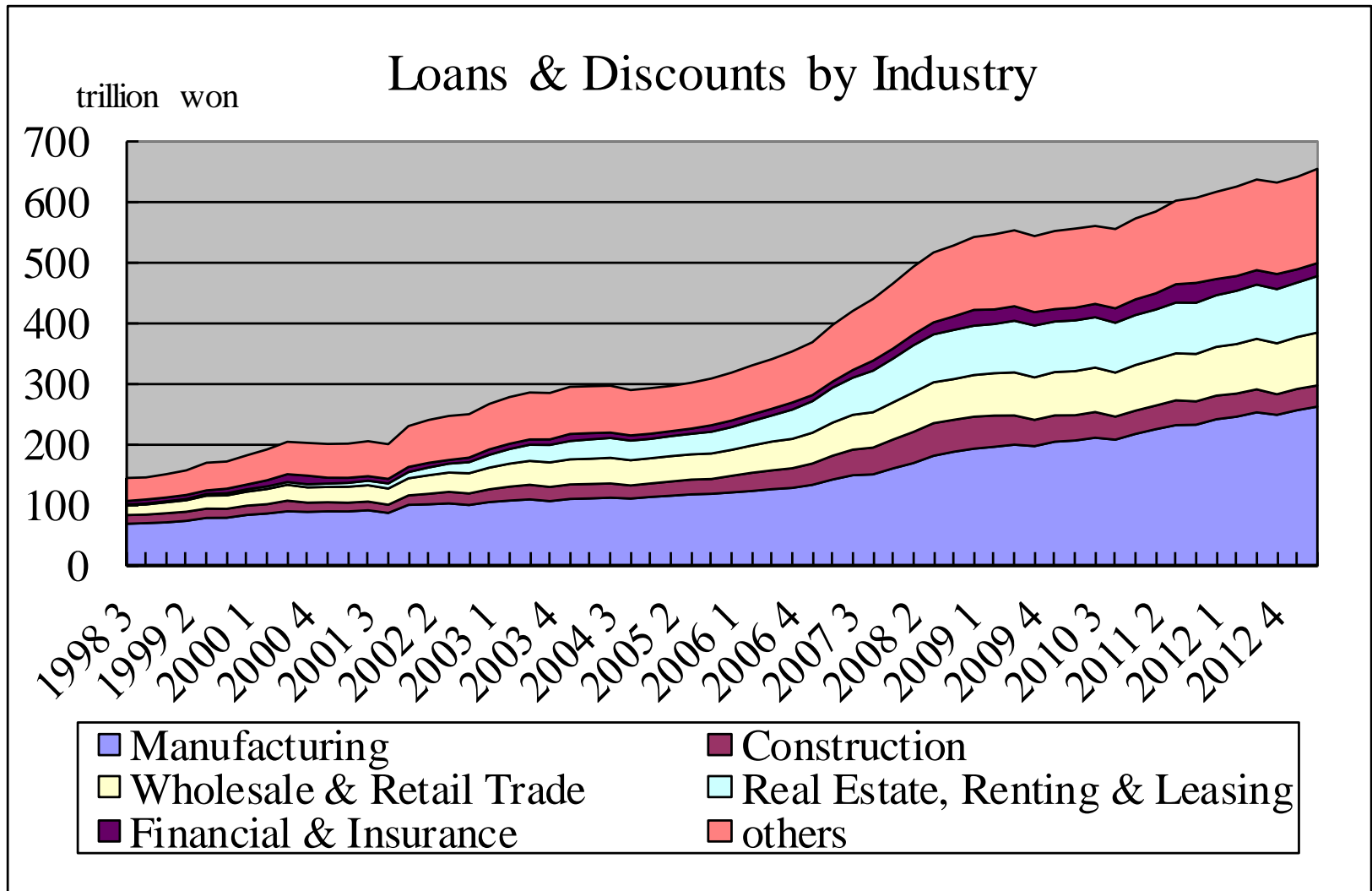
Korea: credit markets

- Loans and discounts rose steadily throughout the 2000s.
- However, the increases were attributable to increased loans to households.
- Credits to manufacturing sector increased to some extent.
- But loans to the other industries (real estate, renting & leasing industry and wholesale & retail trade industry) also increased.

The amount of loans and discounts outstanding by Korean banks



The amount of loans and discounts outstanding by industry



Implications

- Asian emerging economies traditionally relied heavily on either bank lending or internal markets.
- The traditional financial systems, however, changed dramatically in the 2000s.
- Despite the liberalization, they could not increase investment.
- It is important to foster Asian exchange markets that will contribute to sustainable economic growth in the region.