

A Cluster Analysis on Changes in Capital Flows in Asia

Toward Enhancing Portfolio Capital Flows in Asia

Takao Iijima*

Naoyuki Yoshino**

Abstract

The purpose of this paper is to analyze changes in capital flows from Japan to Asian countries from mid 1990s to most recent period, and to propose several steps to promote portfolio capital flows in Asia.

A cluster analysis on changes in capital flows from Japan to 10 Asian countries shows countries that were heavily hit by Asian currency crisis had depended on bank loans among capital flows from Japan at the time of 1996 and/or 97. We also find that each country tends to decrease the share of bank loans and increase that of FDI (foreign direct investment) by investigating changes of each country's clusters. These results imply that Asian countries have recently changed over to relatively strong structure against outside shock. On the other hand, most of Asian countries' foreign portfolio capital flows firstly head to US and European markets and they are reinvested in Asia. Portfolio capital flows within Asian region, however, are not so active.

Therefore, before proposing the policies, we point out that the reason why portfolio capital flows from Japan to Asia are limited to a low level comes from the lack of financial products with middle risk and middle return, and the lack of information about the difference of law and accounting system and relations to complement an enforcement of rules.

To enhance portfolio capital flows in Asia, there should be a continuous information exchange between Asian countries and institutions, a harmonization of the various legal frameworks, development of the financial market and its products. Especially, creation of regulators network among East Asian countries would enhance information exchange and promote common rules of various financial activities.

* Research fellow, Financial Research and Training Center, Financial Services Agency

** Professor, Faculty of Economics, Keio University (Director, Financial Research and Training Center)

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