Regional financial integration in ASEAN in the comparative perspective

Vinokurov, Evgeny

Eurasian Development Bank

2017

Regional Financial Integration in ASEAN in the Comparative Perspective

Evgeny Vinokurov

Director of the Centre for Integration Studies, Eurasian Development Bank

+7-812-3342422

Vinokurov_ey@eabr.org

Abstract

ASEAN regional financial integration evolves within four domains: the banking sector, liberalizing foreign direct investments, liberalizing capital flows, and ensuring regional financial stability. Progress so far has been limited. Regional integration as concerns the liberalization of capital markets and, in particular, the banking sector, proceeds with the most difficulty. By most criteria, ASEAN is well positioned to benefit from deeper financial integration. Comparative analysis also demonstrates that there is a substantial ‘learning factor’ in this technically complicated field: while ASEAN learns about the EU, the Eurasian Union is taking a close look at ASEAN’s experience of integration of the financial markets.

Keywords: ASEAN, regional integration, financial integration, financial stability, capital market, foreign direct investment

JEL Codes: F15, F21, F34, F36, G15

1. INTRODUCTION[1]

While financial integration in the Association of Southeast Asian Nations (ASEAN) has 40 years of history, it accelerated only as the Asian financial crisis of 1997 unfolded. The 2008 global financial crisis provided yet another driver to increase regional financial integration. Essentially, it evolves within four domains: the banking sector, liberalizing foreign direct investments within the union, liberalizing capital flows (bonds in particular), and ensuring regional financial stability. There were several important milestones, including the Chiang Mai Initiative Multilateralization (CMIM) facility and the ASEAN Comprehensive Investment Agreement (ACIA) signed in 2009 (coming into force in 2012) to advance the integration of capital markets. In 2007, the member states signed the ASEAN Economic Community Blueprint (AEC Blueprint 2015, 2007) with the time horizon of 2015 (see Volz, 2013), to be later replaced by the Blueprint with the time horizon until 2025 (ASEAN, 2015). The latter document provides a large set of objectives as concerns the promotion of FDIs, capital account liberalization, bond markets, and financial stability. However, progress so far has been limited. Thus, ASEAN financial integration is an unfolding multi-faceted story, with its own numerous successes and setbacks alike.

In this paper, we will review the process of regional financial integration within the ASEAN in comparison with the European Union (EU) and the Eurasian Economic Union (EAEU). These two entities have been selected for a number of reasons. The European Union, the most institutionally advanced example of financial integration, serves as a benchmark for integration initiatives, including in the financial sector. The EAEU, on the other hand, is a nascent regional integration organization with a quite ambitious and legislatively formalized agenda for a full-fledged common financial market by 2025, including bank and stock exchange markets, expanded use of national currencies in mutual settlements, and establishment of a common bank regulator.

Comparing the progress of these three entities, we will analyze the readiness of ASEAN for deeper financial integration, its main objectives, and prospects of success in certain

[1] The author is grateful to the organizers (ERIA and NEOMA) and participants in the "ASEAN at 50: Looking Backward and Looking Forward" workshop, October 26-27, 2017, Paris, for their numerous remarks and suggestions, in particular to Philippe De Lombaerde, Chen Lurong, Jacques Pelkmans, Ludo Cuivers, and Jürgen Rüland. All mistakes remain his own.

specific areas. From the theoretical standpoint, the benefits of financial integration in terms of faster economic growth, sustainable macroeconomic stability, and strengthening of national economic systems are not preordained. The same set of actions may results in different results in the varying sets of countries. We want to understand whether ASEAN is structurally ready to advance regional financial integration and to reap its benefits. We would also like to know the modalities of the "learning factor" – to what extent regional organizations learn from each other.

The structure of the article is as follows. In Section 2 we discuss some theoretical approaches to financial integration analysis that form a framework for further analysis. In Section 3 we offer an assessment of macro- and microeconomic structural characteristics that arguably determine specific advantages and limitations of regional financial integration for each regional integration organization. Also in this section we discuss structural opportunities and limitations in terms of financial depth and openness. Then, in Section 4, we provide a comparative analysis of the following main areas of financial integration within the ASEAN: the banking sector, liberalization of FDI, liberalization of capital flows, and ensuring financial stability. The conclusion wraps up the analysis.

2. THEORETICAL APPROACHES FOR ASSESSMENT OF THE IMPACT OF FINANCIAL INTEGRATION

According to traditional neoclassical theory, financial integration would produce a positive impact on economic growth by spurring capital growth. Financial integration stimulates capital flows from economies with excessive capital to economies suffering from capital shortages, as the latter normally offer higher returns. This model is predicated on the absence of restrictions on capital flows between countries and industries. Subsequent "improvements" to this model include, among other things, positive spillovers generated by the transfer of technologies and managerial expertise which are supposed to stimulate economic growth in the less affluent countries. A review of literature on this issue is provided in Kose et al. (2009).

The literature on the ASEAN financial integration is also quite large (e.g. ADB, ASEAN, 2013); we will cite the sources throughout the paper. Our addition to the literature will emerge from the rarely used comparative approach and, hopefully, a sober assessment of the ASEAN's strides into the complicated field of regional financial integration.

It should be noted that no generally recognized unequivocal proof of accuracy of the neoclassical theory has been produced to date. A conclusion regarding the absence of positive outcomes of financial integration for the national economy in general, and for the financial sector in particular, follows, for example, from the so-called "financial trilemma" described by Schoenmaker (2011). According to this view, concurrent attainment of financial integration, financial stability, and national financial policy objectives is impossible, as these notions are, by their very essence, incompatible. In practical terms, the existence of the trilemma translates into the need for supranational bodies to control the operation of banks and financial markets.

Kose et al. (2006) contend that indirect results of financial integration may produce more significant consequences for national economies than its direct results. For example, economic growth may be accelerated by more efficient capital allocation and increase of the capital-labor ratio. National economic development benefits from indirect impact of financial integration in four areas: development of the financial sector, development of key institutions, better governance and informed macroeconomic policy. Improvements in those areas, in turn, catalyze further growth of the national economy. Causality among the above areas, and between trade integration on the one hand and financial integration on the other, does not appear to be "automatic". Thus, in order to obtain positive effects from financial integration, the national economy should meet a certain set of threshold conditions (Kose et al., 2006, p. 49). It is because of them that the developed economies – with their deeper financial markets, more sophisticated market institutions, and more stable and efficient macroeconomic policies – benefit from financial integration to a greater extent than emerging economies. It follows that emerging economies should first achieve certain threshold levels of development of government and market institutions and financial markets before they can enjoy any positive impact – direct or indirect – from financial integration.

Kose, Prasad, and Taylor (2009) suggest a set of criteria and indicators that can be used to assess the impact of financial integration on macroeconomic parameters in a given national economy. They include, among others, financial openness, financial depth (the intensity of financial markets, including banking services), the quality of macroeconomic policy (countries with massive public debt overhang are more likely to benefit from financial integration if they tighten their fiscal policy and take steps to reduce debt) (Wei, 2001), general level of economic development, and foreign trade openness. In the following section, we will quantify some of the above criteria as they apply to the ASEAN, and compare the relevant indicators to those for the EU, used as the "integration benchmark", and the EAEU.

3. PRACTICAL ASSESSMENT OF FINANCIAL INTEGRATION OPPORTUNITIES FOR ASEAN AND EAEU

General Level of Development

The ASEAN and the EAEU have comparable GDPs. In 2016, ASEAN GDP amounted to US$ 2,549 billion, or approximately 3.4% of global GDP, while EAEU GDP stood at US$ 1,480 billion (at prevalent exchange rates), which is equivalent to 2% of global GDP. Below we will show that this parameter plays a critical role in designing a financial integration strategy. This is less relevant for the EU, which produces 22% of global GDP (Table 1).

Table 1. Main Economic Parameters: ASEAN, EAEU, EU

	2016 PPP GDP, US$ billion	2016 population, million people	2016 PPP GDP per capita, US$ thousand
EAEU	4,469	180	24.8
ASEAN	*7,391*	*637*	*11.6*
EU	20,008	508	39.4

Source: IMF data

Both the ASEAN and the EAEU include countries with high per capita incomes (Brunei and the Philippines) and also emerging countries, some with below-average per capita incomes. Based on the general level of development, we conclude that the EAEU enjoys a better starting position as concerns the prospects of financial integration than ASEAN, where a number of poorer countries may be exposed to certain risks that will increase as the integration process deepens. However, two small EAEU economies (Armenia and Kyrgyzstan) also face certain risks (related to the general level of development), which may grow as they further integrate within the EAEU. Their very small relative size, however, makes it easier to provide regional and bilateral financial safety nets (which is already being done through bilateral assistance and the Eurasian Fund for Stabilization and Development, see Section 6).

Foreign Trade Openness

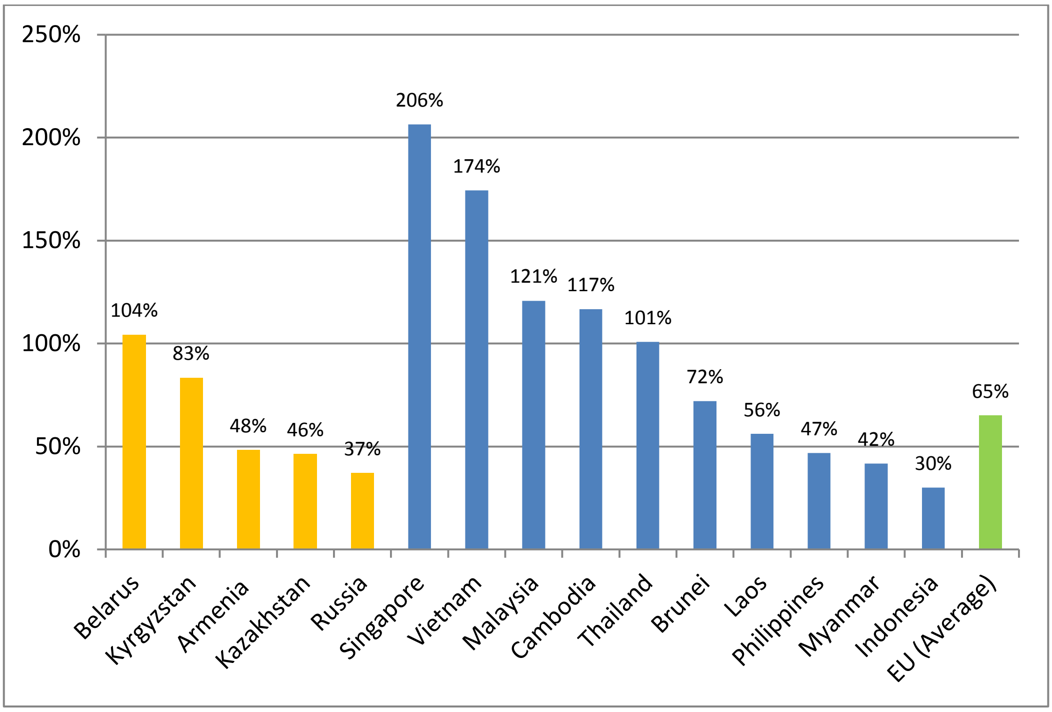
This criterion contributes to macroeconomic stability insofar as foreign trade can mitigate a crisis caused by sudden termination of inflow or by outflow of foreign capital. Trade integration is associated with fewer risks than financial integration. As a result, liberalizing trade first and implementing financial liberalization second might be a less risky strategy than the converse.

Foreign trade openness index values posted by five ASEAN member states are higher than 1.0 (i.e., the ratio of exports and imports to GDP exceeds 100%), meaning that their economies are strongly dependent on external markets. For another five states, the index is lower than 1.0. ASEAN is a very heterogeneous group as concerns its involvement in global trade and value chains (Figure 1).

In the EAEU, the two largest economies are exporters of energy goods whose share in total EAEU exports amounts to almost 60%. This factor makes those countries' trade balances heavily dependent on global oil prices, increasing their currency and fiscal exposures, which, in turn, limits their financial integration potential.

Based on this criterion, ASEAN member states are generally more likely to benefit from expansion of financial integration than EAEU member states.

Figure 1. Economic Openness Indices, 2016



Source: RID Database (based on WB and IMF data), calculations of the author

ASEAN member states show a marked preference for international trade, and internal trade volumes are relatively insignificant. On the export side (with the exception of Laos), it is possible to single out several pairs with mutual trade shares in excess of 5 percent. The structure of mutual trade largely determines the financial integration strategy pursued by ASEAN member states, with key policy goals being to assure financial stability and protect the markets from significant global trade fluctuations and problems caused by capital flight.

Table 2. ASEAN Foreign Trade Structure Matrix (% of the Partner Country's Total Exports)

		to									
		Brunei	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
from	Brunei		0.00	1.62	0.00	4.62	0.00	0.39	3.50	8.64	0.74
	Cambodia	0.02		0.17	0.06	1.57	0.02	0.20	0.69	4.05	2.17
	Indonesia	0.06	0.29		0.01	5.07	0.41	2.61	8.40	3.66	1.82
	Laos	0.00	0.20	0.16		0.24	0.00	0.04	0.20	51.48	18.92
	Malaysia	0.34	0.12	3.73	0.01		0.39	1.69	13.91	5.70	2.23
	Myanmar	0.01	0.00	0.01	0.00	1.52		0.10	5.50	27.54	0.52
	Philippines										
	Singapore	0.22	0.28	8.18	0.02	10.89	0.71	1.85		3.97	3.50
	Thailand	0.05	2.31	3.65	1.98	4.75	1.95	2.80	4.07		4.16
	Vietnam	0.02	1.48	1.76	0.32	2.21	0.23	1.24	2.01	1.96	

Note: data for 2015

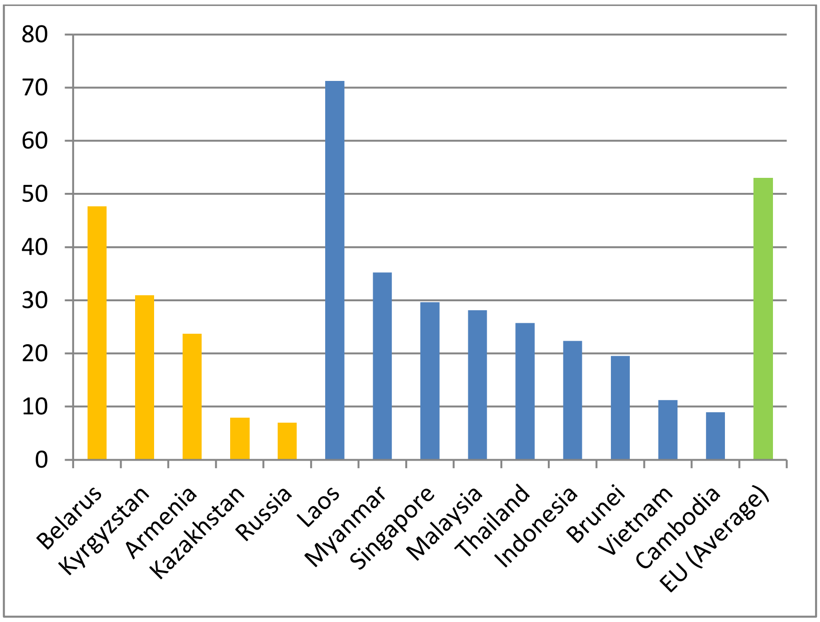
Source: Comtrade

The aggregated structure of trade within the EAEU is rather simple: while Russia is an important trading partner for all the other four members, they scarcely trade at all with each other, the exception of Kyrgyzstan and Kazakhstan. Our analysis of mutual trade in the EAEU is based on 2013 data, as the 2014-2015 currency crisis grossly distorted EAEU mutual trade metrics. Turning to the export side, Russia is the most crucial export destination for Belarus and Armenia, while it is less important for Kazakhstan and Kyrgyzstan. The only notable non-Russian exports are those from Kyrgyzstan to Kazakhstan. Kyrgyzstan sells around 20%-25% of all its export goods to Kazakhstan (mainly machinery and manufactured goods), although this represents a negligible share of total Kazakh imports.

The structure of mutual trade within the regional organizations reflects considerable differences between the strategic objectives of their financial integration. Comparing the intra-union trade in the EAEU and the ASEAN with that in the European Union before the emergence of the currency union, we ascertain that trade relations within the EU were more developed. On the average, 51% of exports by the Eurozone countries stayed within the Eurozone, and 53% of imports by the Eurozone countries originated from the Eurozone. The respective figures for the EAEU are 23% and 34%. Average intra-ASEAN exports stand at 25% (23%, if we leave out Laos which exports more than 70% of its products to ASEAN markets). The only EAEU member state that reports figures comparable to Eurozone averages is Belarus.

The low level of trade integration within the ASEAN and the EAEU suggests that the benefits of monetary integration deriving from elimination of the exchange risk in internal trade between member states within each alliance may be rather modest. This could be why financial integration in the ASEAN has taken a different direction than it did in the EU, with ASEAN member states forgoing the idea of a monetary union.

Figure 2. Share of Intra-Union Exports in Total Exports in ASEAN, EU, and EAEU



Note: EAEU, ASEAN, and EU data are for 2013, 2015, and 2000 (the year before introduction of the euro), respectively.

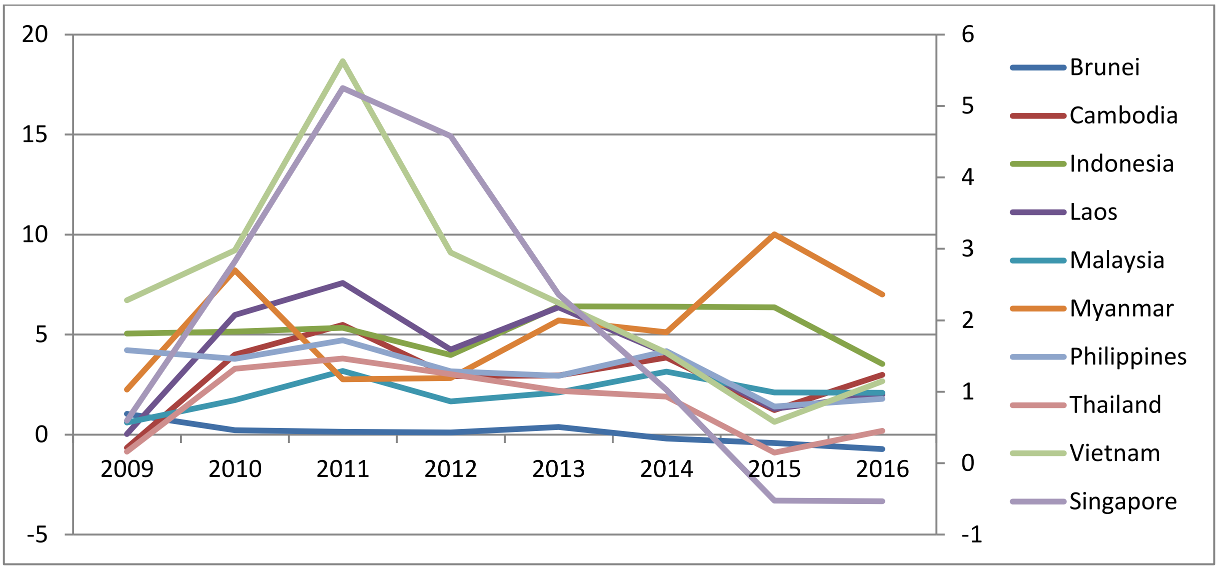
Source: Comtrade

Quality of Macroeconomic Policy

This criterion may contribute to a positive correlation between financial integration and stable economic growth, as intensive inflows of foreign capital generally call for particular attention to monetary policies and various prudential measures. Countries with high inflation, a considerable balance of payments deficit, and an expansive fiscal policy are more likely to be exposed to crisis-related external shocks than countries with a budget surplus, moderate growth of budget expenditures, low inflation, and a generally healthy balance of payments.

Generally, over the last seven years ASEAN member states have managed to keep their inflation in the one-digit range, meaning that their monetary policy has been rather restrictive (Figure 3). Inflation rates are still higher than the EU average, but this is normal for emerging economies, taking into consideration the Balassa-Samuelson effect.

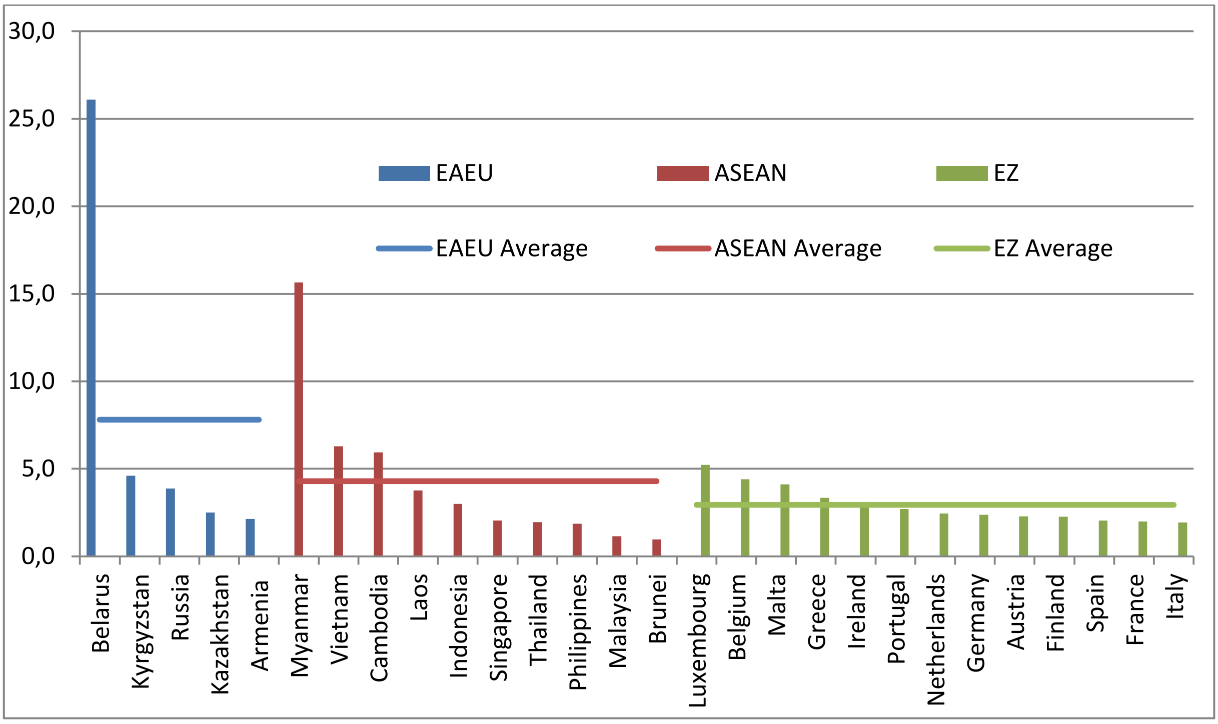
Figure 3. ASEAN Inflation Rates



Source: IMF data, calculations of the author

If inflation is volatile, it is likely that there are high inflationary expectations, or that inflation shocks are very persistent. Persistently high inflation makes the conduct of monetary policy more complicated, as shocks have a more protracted effect on the real economy. Surprisingly, however, Figure 4 shows that the average autocorrelation of quarterly inflation rates for ASEAN and EU member states (before the introduction of the single currency) were broadly similar, and generally better than those posted by EAEU members. Most EAEU member states (with the exception of Belarus) and ASEAN member states (with the exception of Myanmar, Vietnam, and Cambodia) meet the threshold conditions.

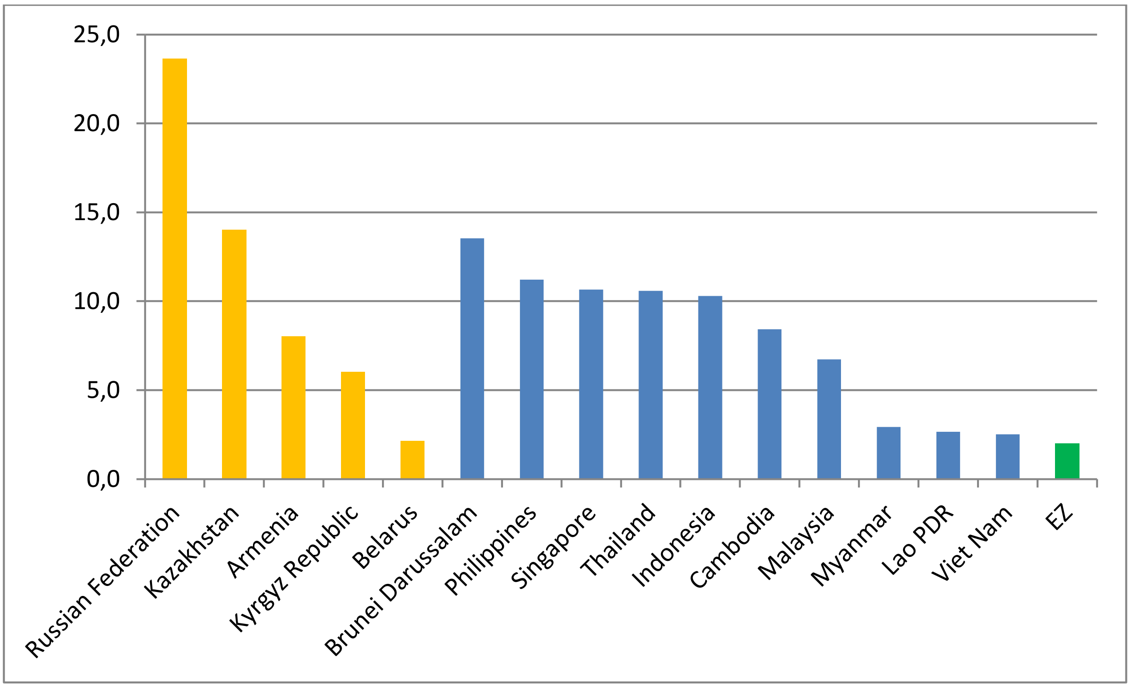
Figure 4. Inflation Volatility in EAEU, ASEAN, and Eurozone, 2000-2016



Source: IMF, calculations of the author.

Note: Inflation volatility is measured as mean square deviation of annual data for the period from 2000 to 2016. Eurozone countries' data are for 1990-2000 (before the introduction of the single currency).

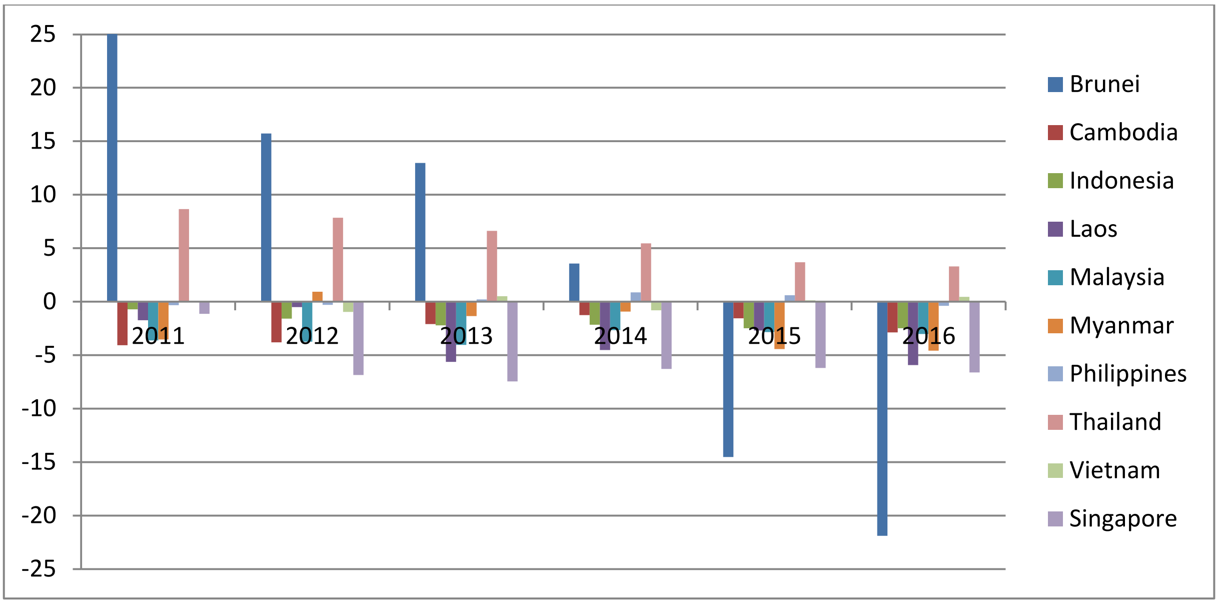
Figure 5. International Reserves in Months of Imports in ASEAN, Eurozone, and EAEU, end of 2016



Source: World Bank.

Total reserves in both the ASEAN and the EAEU remain comparatively high – evidence that their member states are clearly responding to the possibilities of an exogenous shock (Figure 5). The lessons of the 1997 and 2008 crises have apparently been learnt. However, over the last five years, both integration associations have experienced a reduction of reserves.

Figure 6. Fiscal Deficit in ASEAN Member States, % of GDP



Source: IMF data

Increased openness of economic and financial systems calls for more efficient public finance management. A number of ASEAN countries, primarily some of the less developed ones (Laos, Myanmar, Cambodia, and Vietnam), have adopted reforms of the fiscal system and public finance management. For example, in 2014 the government of Myanmar approved a midterm fiscal planning framework and a public finance management system reform program until 2019. It also implemented a number of measures designed to boost fiscal planning quality by imposing spending limits on government agencies, linking spending to policy priorities, introducing mechanisms for control of the budget deficit, and improving the inter-budget transfers system. The government of Laos, acting with financial and technical support of the Asian Development Bank and the World Bank, is implementing a series of projects designed to improve fiscal planning, streamline the budget process, introduce midterm fiscal planning and reporting, and provide advanced professional training for public officials. Generally the fiscal policies pursued by ASEAN member states are quite conservative.

The EAEU, on the contrary, fell victim to the 2014-2015 currency crisis, which revealed certain monetary and fiscal policy flaws. At the end of 2014, plummeting oil prices forced their governments to use international reserves to support national currency exchange rates. While Russia and Belarus promptly implemented a floating exchange rate regime, Kazakhstan postponed that step until the middle of 2015, which had an adverse effect on its economy. With incomes rapidly dwindling throughout 2014-2015, the budget deficit as a percentage of GDP tended to increase in virtually all EAEU member states. Kazakhstan recorded the most significant decrease, from 1.8% in 2014 to -6% in 2015.

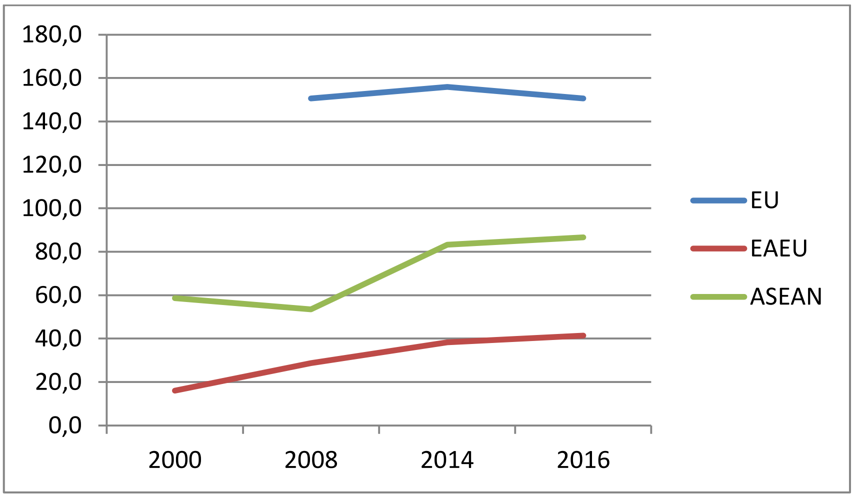
To sum up, based on macroeconomic policy criteria, most ASEAN and EAEU member states lag behind the EU. Currency crises and the global financial crisis have pinpointed soft spots in macroeconomic policies: the instability and dependence of exchange rates and fiscal parameters (for energy-exporting countries) on oil prices, persistently high volatility of inflation, inferior implementation of fiscal rules, and the (partial) failure to observe strict fiscal discipline. All these issues need to be resolved before deeper financial integration can produce positive outcomes for these regional unions.

Financial Depth

As a starting point, we will compare the development of the banking sectors. Figure 9 demonstrates that the banking systems of ASEAN member states have a rather high level of banking activity – e.g., the ratio of total loans to GDP is half that of the EU, but twice as high as the EAEU. That means that ASEAN banks play a significant role in regional development.

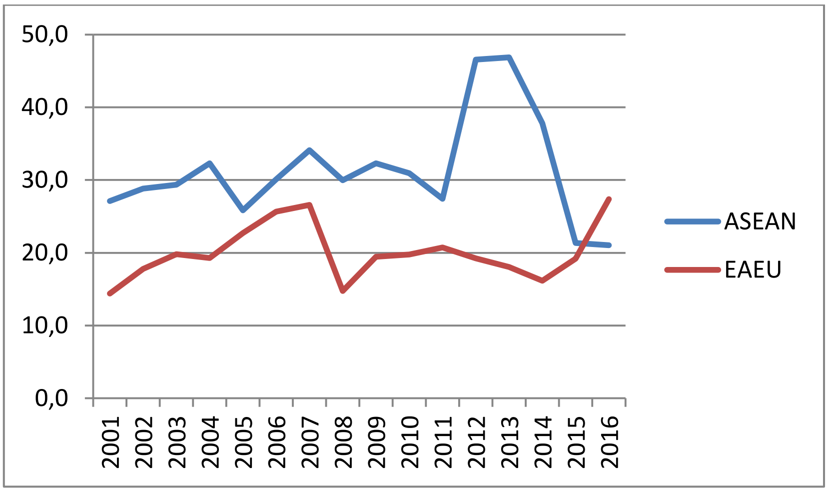
The debt burden can be measured by the ratio of private sector credits to GDP (Figure 7). In the ASEAN in 2016, that indicator was at 73.2%: the level of risk is moderate, but we need to keep in mind that the index has been growing for the last two decades. The situation in the EU is characterized by the high level of the index. In the EAEU, the index is rather low, which creates conditions conducive to further growth of the banking sector, but may also testify to the lack of sufficient potential for successful financial integration at this point in time.

Figure 7. Total Loans to GDP, %



Source: World Bank data, calculations of the author

Figure 8. Liquid Assets to Total Assets, %



Source: World Bank, in-house calculations

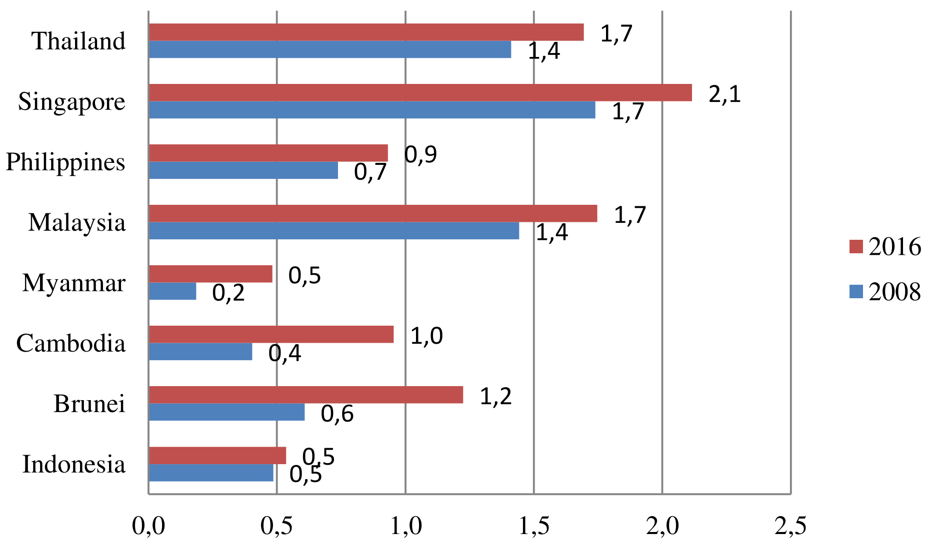
As for the liquidity of bank assets, in the ASEAN this indicator is rather high: in 2012-2013 it was 46.7%. In 2014-2016, the value of liquid assets halved, which increased liquidity risks (Figure 8).

In 2016, the EAEU posted a higher result than the ASEAN (27.4% vs. 21.1%). In terms of financial depth, the EAEU banking sector is clearly far behind the ASEAN banking sector, let alone the EU banking sector, meaning that deeper financial integration in the EAEU may be fraught with risks. ASEAN member states, on the contrary, demonstrate a reasonable level of financial depth. However, falling liquid banking assets, in conjunction with falling international reserves, may suggest that the ASEAN economies are getting somewhat complacent, lulled by the decade of growth under the very lax policy of the world's leading central banks.

Financial Openness

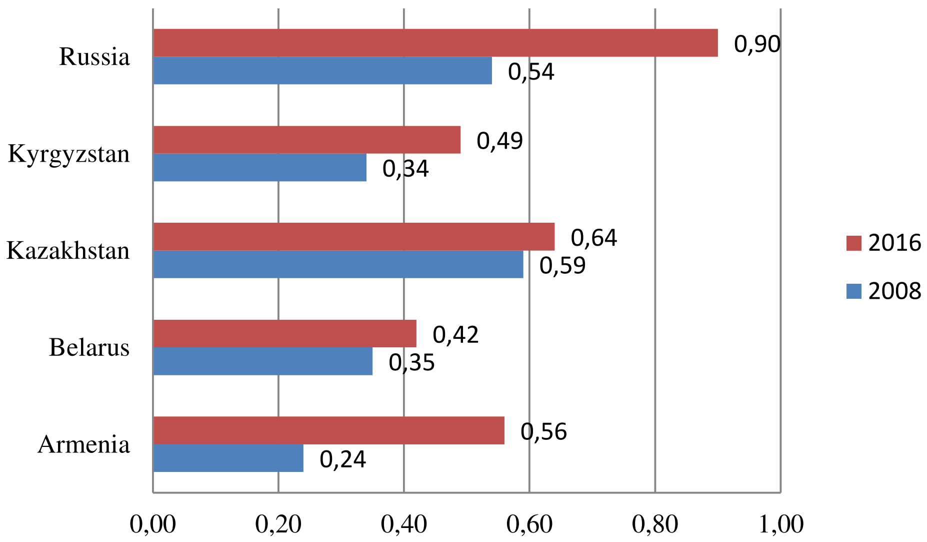
The dynamics of the international financial integration (IFI) indicator in ASEAN member states and EAEU member states demonstrate that over the last ten years, both integration associations have become more open to the global financial markets. (The IFI indicator shows the level of internationalization of the financial system. It is defined as the ratio of foreign assets and liabilities to GDP.) ASEAN member states are more involved in the global financial sector, due to the presence there of major financial centers, Singapore in particular. The EAEU is also posting good IFI indicator growth rates, which testifies to the active participation of its member states in international financial processes (Figures 9 and 10).

Figure 9. IFI Indicators for ASEAN Member States



Source: World Bank

Figure 10. IFI Indicators for EAEU Member States

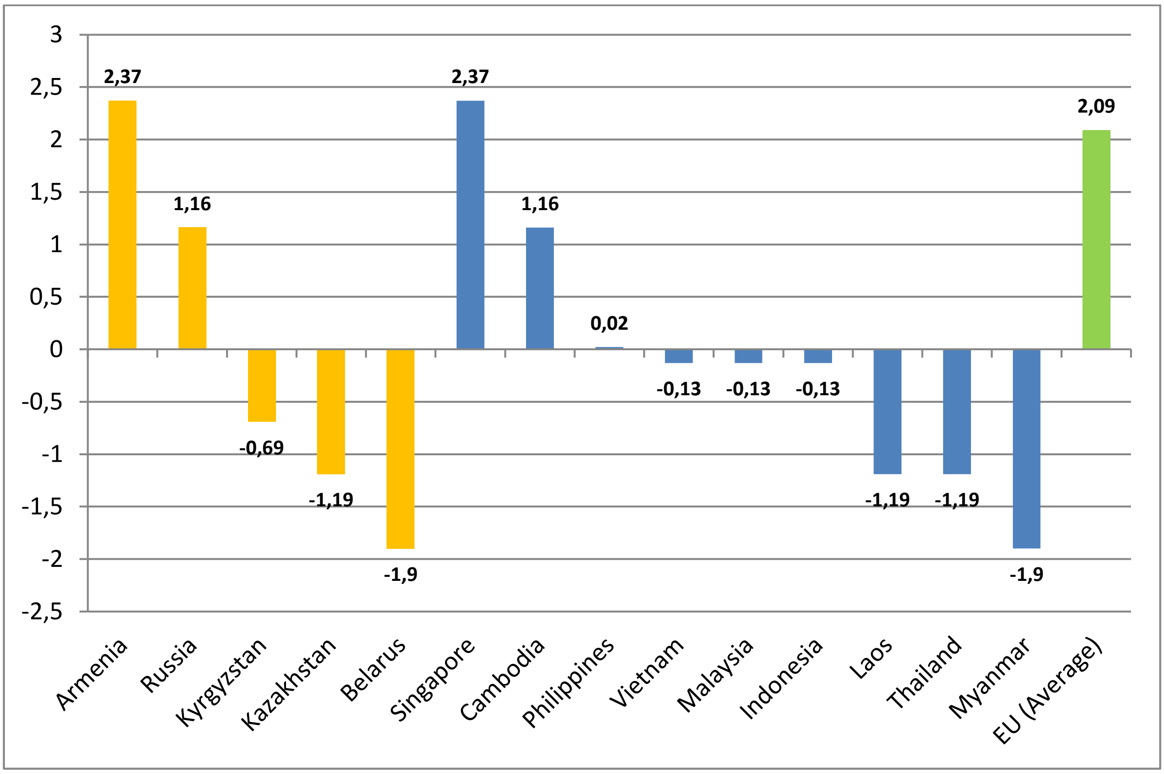


Source: World Bank

The Chinn-Ito index [2] is often used by international experts to quantify the level of openness of capital accounts in a given country. In 2015, the index values ranged from -1.90 to +2.37 (the higher the value of the index, the greater the openness of the capital account in the country). A review of the indicator in EAEU member states and ASEAN member states shows a considerable spread in values. In the ASEAN, the best value is boasted by Singapore, with Cambodia and the Philippines featuring positive readings as well. The other countries post sub-zero values, meaning that financial openness, coupled with intensification of integration processes in the financial sphere, may expose both ASEAN member states and EAEU member states to additional risks (Figure 11).

[2] The Chinn-Ito index (KAOPEN) measures a country's capital account openness. The index was initially introduced by Chinn and Ito (2006). KAOPEN is based on the binary dummy variables that codify the tabulation of restrictions on cross-border financial transactions reported in the IMF's Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER). The 2015 index is based on AREAER 2016, which contains information on regulatory restrictions on cross-border financial transactions in effect at the end of 2015.

Figure 11. Chinn-Ito Index in 2015 for ASEAN Member States, EAEU Member States, and the EU



Source: http://web.pdx.edu/~ito/Chinn-Ito_website.htm

The following table summarizes our qualitative assessment, based on the criteria of impact of financial integration on macroeconomic parameters. By most of these criteria, ASEAN is well positioned to benefit from deeper financial integration (and better than the EAEU).

Table 3. Qualitative Assessment of the Six Financial Integration Criteria

	EAEU	**ASEAN**
General level of development	++	+
Foreign trade openness	-	++
Mutual trade	-	-
Quality of macroeconomic policy	+	++
Financial depth	-	+
Financial openness	+	+

Source: composed by the author.

4. PROGRESS ON FINANCIAL INTEGRATION IN ASEAN

Banking Services

Liberalization of cross-border banking services is one of the key tasks stipulated by the AEC Blueprint. However, banking services sector integration is probably the most challenging task facing the countries of the region. There are several reasons for that.

First, the ASEAN banking sector is generally relatively small, and the current foreign penetration of the national banking markets is low. At the end of 2013, market capitalization of all 24 private banks operating in ASEAN member states was less than that of either Hong Kong and Shanghai Banking Corporation (HSBC) or Construction Bank of China. In the absence of large banks, it is difficult to deal with tasks related to securing stable social and economic development in individual member states, or in the region as a whole.

Second, dependence on foreign banks is high. In 2015, the bulk of payment orders were handled by banks from the EU (27.2%) and the US (29.4%). A considerable part of regional liabilities was also concentrated in the EU (36.9%) and the US (32.9%).

Third, ASEAN member states are apprehensive of the possible entrance of a major international (transnational) player in regional banking services markets. Inasmuch as none of the ASEAN member states has a major domestic bank, such a large transnational player might hypothetically monopolize any national market, capturing the overwhelming majority of local resources and consumers. In such a situation, local banks, with their relatively modest asset bases and narrow service ranges, would find themselves severely disadvantaged. Not surprisingly, many countries in the region have independently taken steps to erect or strengthen market entry barriers for foreign credit and financial institutions. For example, Singapore has implemented the following measures to mitigate the risks associated with the presence of a large number of foreign bank branches: foreign market participants are subject to the same domestic market access qualifications as national banks; the number of foreign bank branches authorized to work with individual deposits (saving accounts) is limited; foreign bank branches that conduct large-scale retail operations and hold full-range banking licenses are required to register as separate legal entities (Almekinders et al., 2015, p. 25).

Fourth, there are even stronger fears that the liberalization of the banking services sector will aggravate the existing situation in the less developed ASEAN member states.

Each ASEAN member state probably needs to attain a certain threshold level of development of the banking services sector before it is able to benefit from its liberalization and integration at the pan-ASEAN level. Until this is done, negative effects of market liberalization may outweigh its benefits.

Progress so far has been minimal. There is currently no pan-ASEAN coordinative and/or supervisory body that would monitor development of integration processes in the regional banking services sector. Establishment of such a body would entail delegation to it of numerous bank supervision and control functions currently performed by national regulators. Also, harmonized legislation required to integrate banking services markets and expand cross-border banking within the ASEAN is still absent. In theory, the harmonization of banking legislation could cover uniform bank licensing and disclosure requirements, minimal equity standards, risk management, accounting and reporting standards, and common bankruptcy, consumer protection, and anti-money laundering procedures. Matters associated with organization and conduct of foreign operations of bank subsidiaries and branches in the other countries of the association remain largely unresolved.

To galvanize regional financial integration, the ASEAN Bank Integration Framework (ABIF) was established in 2014. One of the main goals of this initiative is to improve market access and flexibility by establishing the so-called Qualified ASEAN Banks (QABs). QABs are intended to work on preferential terms so that they can offer a broader range of banking products and services. To provide QABs with access to the regional market, ASEAN member states are expected to execute a series of bilateral agreements. Only four such agreements have been signed as of the beginning of 2017, with Indonesia showing the most interest. The QAB idea is close to that of the EU “single bank passports”, which would permit banks to operate in all EU member states. The ABIF is expected to be implemented only in 2020, due to the different levels of banking sector development within the ASEAN. The progress so far has been small.

Increased competition in the banking sector should exert downward pressure on interest rates. Cheaper financing will have a positive impact on development of the regional economy. QABs are intended to become pan-ASEAN banks that can compete with global banks and drive regional financial sector development. On the other hand, relaxation of cross-border money transfer procedures may give rise to the risk that funds will gravitate towards countries with better regulation and more political stability.

One of the lessons from the EU is that it is necessary to enforce strict resolution rules for banks that are entering the common market. If a bank has operations in many countries within the common market, a clear depositor payout mechanism needs to be implemented and activated in the event of the bank's collapse. If that is not done, serious cross-border disputes may occur. Another important question is whether a regional supra-national financial supervision authority might be needed. The problem here is that such a body might run counter to the basic principles of integration among ASEAN countries, which are generally extremely anxious to protect their sovereignty. As a result, it is highly unlikely that a common banking market will emerge in the next several years; instead, banking integration in the ASEAN may proceed on a limited scale.

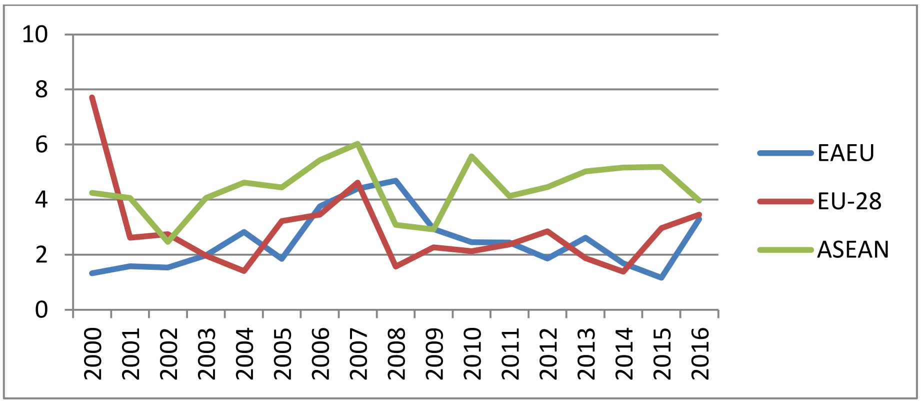
Let's now turn for comparison to the EAEU. This regional organization is planning a full-scale financial market by 2025, complete with a common supervisory body. The first step in this direction, implemented over 2017-2019, is harmonizing the existing legislation. Like other integration associations, the EAEU needs to work out some common rules for bank licensing; licenses could be similar to European single passports or ASEAN QAB authorization certificates. The first agreements on the free access of brokers to the foreign stock exchanges is already in force. The issue of national sovereignty is also high on the agenda, just as it is in ASEAN. While the national banks are seriously discussing the matter of supra-national supervision (a white paper was prepared by the Eurasian Economic Commission in August 2017), there is a non-negligible chance that this initiative would be watered down in the course of harmonization of legislation and prudential supervision. The relevant ASEAN initiatives, ABDI and ACMF in particular, are being scrutinized by the EAEU institutions as a potential blueprint.

Liberalization of Foreign Direct Investments

In 2014, ASEAN member states overtook China in FDI inflow ($136.2 billion, a 16% increase vs. 2013), and became the largest recipient of investment of that type in the developing world. In 2014, the value of mutual FDI within the ASEAN increased by 26% to $24.4 billion, reaching 18% of total inbound investment flows in the region

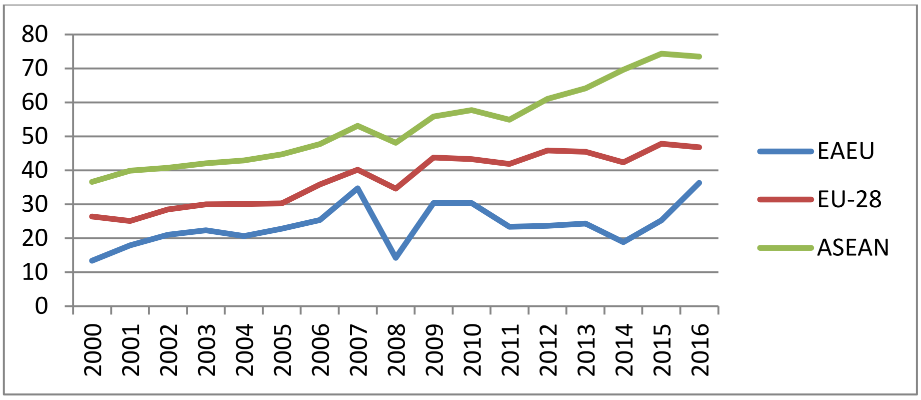
(Almekinders et al., 2015). Singapore remains the largest regional investor in the ASEAN. In 2014, it accounted for 68% of all intraregional FDI, targeting processing facilities, agriculture, finance, and real estate. Statistical data and empirical research confirm that after 2000, the increase in FDI became the main industrial and agricultural production growth driver in the less developed ASEAN member states (Myanmar, Laos, Cambodia, Vietnam), and that it also spurred export of their goods and services to the more developed countries both inside and outside the association (ASEAN, 2015a).

Figure 12. Incoming FDI, % of GDP



Source: RID Database (based on UNCTAD data), calculations of the author

Figure 13. FDI Stock, % of GDP



Source: RID Database (based on UNCTAD data), calculations of the author

The general purpose of the capital market liberalization initiatives is to increase foreign investments, of which the FDIs are the most advantageous form. ASEAN FDI flows tend to increase, meaning that the region is becoming more attractive for foreign investors.

FDI in ASEAN member states is mostly concentrated in manufacturing and financial activities, whereas investment in the agricultural sector is quite low. Taking into account the fact that ASEAN's population is about 630 million, development of the agriculture sector should become one of its investment priorities. The ASEAN financial sector is one of the key FDI recipients (32.5%) due to the superior quality of its financial instruments and the excellent prospects for development of new financial instruments. However, the ASEAN should remember the lessons of the 2008 financial crisis, and avoid excessive dominance of the financial sector over the real sector.

It is of particular importance that the four ASEAN countries with the lowest GDP are catching up nicely, which may partly be due to the intra-regional FDI (Pelkmans, 2018).

By comparison, in the EAEU, FDI inflows grew until 2013, then faced a three-year decline. Only in 2016 did both incoming and mutual start to grow again (EDB Centre for Integration Studies). Mutual investment by EAEU member states in 2015 amounted to $23.7 billion, a figure comparable to ASEAN levels. However, while in the ASEAN, FDI inflows exceed FDI outflows, in the EAEU since 2013, the net FDI position has been negative.

FDIs could be viewed as an instrument for promotion of stable economic development in the ASEAN region. Over the last several years, the ASEAN has been quite successful in attracting foreign capital, while the EAEU, conversely, has been plagued by capital flight.

Liberalization of Capital Markets

Liberalization of capital markets is an important component of financial integration. However, ASEAN capital markets are still burdened by certain restrictions:

- most countries restrict the use of their currencies overseas;
- there are restrictions on overseas borrowings and overseas lending denominated in local currencies;
- most countries restrict foreign exchange risk hedging by investors;
- some countries still use a withholding tax on securities investment.

Most regulations focus on capital outflows rather than inflows (Shimizu, 2014). Liberalization of capital outflows is a key task for further integration; it could reduce the round-tripping of regional savings through financial centers in advanced economies, for example, when capital goes abroad and returns in the form of portfolio investments.

Relaxation of capital outflows is likely to increase capital flows between ASEAN member states (Almekinders et al., 2015).

The Implementation Plan for ASEAN Capital Markets Integration was established in 2009 to support formation of a common capital market. The plan covers a number of important areas, including creation of regulatory environment and market infrastructure, development of new products, and expansion of domestic capital markets. Implementation of the plan is supervised by the ASEAN Capital Markets Forum (ACMF), which was established in 2004 (Shimizu, 2014).

The ASEAN Comprehensive Investment Agreement (ACIA) was signed in 2009 to provide further integration of capital markets. It came into force in 2012, and is deemed to be an important step, as it will make it possible to create a common financial market among ASEAN member states, attract foreign investors for long-term projects, and increase the activity of domestic investors. ACIA covers not only intra-ASEAN investments, but also foreign-owned ASEAN-based investments. It assures a high level of foreign investor protection, thereby stimulating FDI and portfolio investments inflow. The agreement consists of four main parts (investment facilitation, investment promotion, investment liberalization, and investment protection), and is based on the principles of transparency and non-discrimination (Nipawan, 2015). Its specific feature is that it uses a broad construction of the term “investor”, covering both regional and foreign investors. The same broad construction applies to the term “investment”: investments are all types of investor assets, including movable and immovable property (and titles thereto), deposits, securities and other types of portfolio investments, concessions, intellectual property rights, contractual rights, investment incomes, and cash receivables. Investors may be both legal entities and individuals (which/who must be residents or citizens of an ASEAN member state).

Investment protection under the ACIA takes the form of a set of rules including a crucial one on indemnification – government bodies may attach or nationalize investments only if they are capable of fully indemnifying the investor for its losses (Nipawan, 2015; see also Chia and Plummer, 2015, pp. 107–110).

After the 2008 global economic crisis, both the ASEAN and the EAEU encountered problems related to capital attraction. However, over the last five years, portfolio investments have generally tended to increase. In the ASEAN, the growth has been threefold; apparently, these are (at least to some extent) the first tangible results of ACIA implementation. In the EAEU, the establishment of a common investment initiative is still on the agenda. It should cover a dispute resolution mechanism (which is inherent in all investment initiatives), easing of business operation, further development of electronic commerce, and better intellectual property protection. The idea is to use the so-called "negative list" principle, pursuant to which restrictions apply only to clearly stated sectors, while any new restrictions in new or developing sectors are prohibited.

Capital market integration in the ASEAN is also rendered more difficult by the existence of different exchange rates regimes. Brunei uses a fixed exchange rate regime (linked to the Singapore dollar); Thailand and the Philippines use a floating exchange rate regime; other countries use both these approaches to adjust their exchange rates for different purposes (Ramkishen, 2012). EAEU member states face the same problem: Russia and Kazakhstan have implemented floating regimes, while the other countries use soft pegs (EDB Centre for Integration Studies, 2017).

Regional Financial Stability

The 1997 Asian financial crisis revealed serious structural problems in the ASEAN financial sector. Among other consequences, the dollar-denominated debt load had to be restructured. Despite relatively high savings (up to 41.6% of GDP in Singapore), investors preferred to convert short-term cash into foreign currencies, and then invest it in long-term regional projects. In addition, the financial sector grew at a slower rate than the real sector, raising the need to improve the legal system and the existing financial infrastructure. It was obvious that ASEAN region needed a new strategy that would channel national savings into regional development projects, and ensure long-term financial stability (Yamaguchi, 2014). In an attempt to reach that goal, in 2003 ASEAN+3 launched an Asian Bond Markets Initiative (ABMI) (Figure 14).

Figure 14. Evolution of ABMI Goals

2003: Establishment of ABMI

- creating new debt instruments;
- creating a credit guarantee mechanism;
- issue of bonds denominated in regional currencies;

- development of a rating system and rating agencies;
- technical assistance coordination

2008: "New ABMI Roadmap": Four Task Forces

TF1	TF2	TF3	TF4
Promotion of issue of bonds denominated in regional currencies + research on multicurrency bonds	Stimulation of demand for bonds denominated in regional currencies Credit Guarantee and Investment Facility (CGIF)	Regulatory framework reform Investigation of the issue of establishing a regional settlement body	Improvement of bond market infrastructure Development of regional rating systems

2012: "New Roadmap+":

- improvement of CGIF efficiency;
- improvement of investment environment for institutional investors;
- initiative for establishing regional settlement intermediaries;
- facilitation of SME access to financial markets;
- strengthening the foundation of regional rating systems;
- improvement of financial literacy

Source: compiled by the author based on Lee (2012), Kurihara (2012), and Yamaguchi (2014)

Similar initiatives have been implemented in other integration associations, in particular in the EU, including "project bonds".[3] Working groups on bond market problems have been formed in EU supranational bodies, such as the Capital Markets Union in the European Commission, or the Bond Market Contact Group in the European Central Bank (ECB). The ASEAN does not create supranational agencies; moreover, these initiatives are optional, unlike in the EU. For that reason, integration is generally quite slow and contradictory (Volz, 2013).

One of the most important components of the ABMI initiative is the Credit Guarantee and Investment Facility (CGIF). Under the CGIF, guarantees for corporate instruments denominated in regional currencies are provided to facilitate the issue of bonds

[3] "Project bonds" as a new financial instrument emerged in 2010 after the global financial crisis. EU project bonds are issued by private companies; accordingly, their issue does not increase public debt. More information on "project bonds" is available in Eurofi (2011).

denominated in regional currencies with longer maturities. The total amount of funds in the facility is $700 million, with the bulk contributed by China, Japan ($200 million each), and South Korea ($100 million). The Asian Development Bank also participates in the initiative, with a contribution of $130 million.

What has been achieved over the last 14 years since the launch of the ABMI? The size of the bond markets has tripled from $6.5 trillion in 2003 to $20.7 trillion in 2017. However, a comparison of the sizes of bond markets with the sizes of member state economies shows that in many countries, bond markets are still quite small, as, for example, in Vietnam (where the bond market accounts for 21.8% of GDP) or Indonesia (18% of GDP). In the ASEAN, the most developed bond markets have emerged in Myanmar (95.4% of GDP), Singapore (83.2% of GDP), and Thailand (81.2% of GDP). The ASEAN's neighbors also have highly developed bond markets, in particular the Republic of Korea (126.5% of GDP) and Japan (210.9% of GDP).

One of the main features of Asian bond markets is the preponderance of government bonds; for example, in Thailand, government bonds account for 59.9% of GDP vs. 21.2% of GDP for corporate bonds, while in Myanmar those indicators stand at 51.5% and 43.9%, respectively.[4] After the Asian financial crisis, many regional companies, including market leaders, minimized their investments in line with the widespread policy of debt reduction. It should also be noted that government bonds have lower spreads, and are often traded in the secondary market, while corporate bonds are mostly held until redemption (Yamaguchi, 2014).

Foreign investors still have strong positions in the bond markets of ASEAN member states: for example, in Indonesia 39.5% of bonds are held by foreigners, while in Myanmar the share of foreign investors is 27%. In non-ASEAN ABMI members, more than 90% of bonds are held by regional investors. The main government bondholders are private banks and contractual savings institutions (from 44% in Indonesia to 71.8% in Myanmar).[5]

The real level of integration of the Southeast Asian bond markets remains rather low, whereas in the EU it is quite high, particularly after the introduction of the single currency. While EU member states have, for many years, focused on forging long-term relationships

---

[4] Asian Bonds Online, as of March 2017, available at https://asianbondsonline.adb.org/regional/data.php# bond_market_indicators.

[5] Asian Bonds Online, as of June 2017, available at https://asianbondsonline.adb.org/regional/data.php# bond_market_indicators.

between bond market players, in Asia such relationships are still evolving (Calvi, 2010). One of the most important instruments used in EU bond markets is the so-called "single passport" for investors. Another instrument successfully implemented in the last several years is the "digital investment passport"; this modern, high-tech instrument enables centralized storage of administrative information about potential investors, which makes the process of investment guidance more effective.

The ASEAN experience, along with that of the EU, should be used to accelerate development of the EAEU bond markets. Bonds denominated in regional currencies should become an important part of economic growth in the region. Both the ASEAN and the EAEU are characterized by significant differences between the levels of economic development of their member states. EAEU bond markets are still relatively underdeveloped: for example, bonds trading in Russia comprise only 2% of the total trading volume, with currency markets and REPO transactions accounting for 80% of the volume (EDB Centre for Integration Studies, 2017). The lack of financial instruments denominated in regional currencies slows down the integration process. Most financial instruments are denominated in US dollars, which can be explained by the dominating position of the oil and gas sector in the region (oil and gas prices have been historically quoted in US dollars). The sanctions imposed on Russia by Europe and the USA are likely to galvanize the market for bonds denominated in the regional currencies. We already see rising levels of governmental and corporate borrowing in the national currencies.

Coming back to ASEAN, one of the most effective instruments to ensure financial stability is the Chiang Mai Initiative Multilateralization (CMIM) fund, which was established by ASEAN+3 in 2008. The first attempts to create swap lines were undertaken in 1977-1978 under the ASEAN Swap Agreement ($100 million in 1977, and $200 million in 1978), but the funding allocated was clearly insufficient to have any tangible effect on regional development. The Chiang Mai Initiative (CMI), envisaging the use of bilateral swaps, was launched in 2000. The 2008 crisis demonstrated the low efficiency of CMI: ASEAN member states preferred to borrow cash from the US or from international organizations. CMIM was established in 2008 with a view to improve this financial instrument. The funding provided by the multilateral facility currently stands at $240 billion. ASEAN member states contribute about 20%, while China, South Korea, and Japan contribute 32%, 16%, and 32% respectively. Some technical issues related to CMIM utilization (for example, the evaluation procedure for withdrawal requests) remain unclear, and ASEAN member states continue to actively resort to direct cash borrowings (Aizenman, Jinjarak, and Park, 2011).

Over the last several years, especially after the 2008 crisis, swap lines have become increasingly popular all over the world. For example, the EU, acting via the ECB, has entered into stabilization swap agreements with the US Federal Reserve System ($314 billion) and China People’s Bank (¥350 billion, or €45 billion). The EAEU has not implemented such swap mechanisms within the union. One reason is the persistently huge gap between the level of development and the size of the economy between Russia and the other EAEU member states. Meanwhile, Russia has a swap agreement with China, executed in 2014, for □815 billion, or ¥150 billion ($25 billion).

Another important condition of stable regional development is the ongoing implementation of the common infrastructure projects. Over the next several years, ASEAN member states will spend at least $26 billion on such projects (ADB). ASEAN countries rely primarily on public-private partnerships, which ultimately enable it to raise the massive funding required to finance high-risk projects.

Another financial vehicle, the ASEAN Infrastructure Fund (AIF), was established in 2011 with the objective of advancing regional connectivity. About $500 million has been contributed, $335 million by the region’s states and $150 million by the Asian Development Bank. The AIF will issue debt, which is targeted to be purchased by central banks’ foreign exchange reserves. The goal is to lend $300 million a year. The ADB is the AIF’s administrator, and all AIF-financed infrastructure projects are also cofinanced by the ADB. However, judging from where it stands now (ADB, 2016), the Fund still has a long way to go to fulfill its objectives.

Turning to the EAEU, it has chosen a similar route to encourage joint infrastructure projects through regional financial initiatives. It has been far more successful than ASEAN – perhaps due to the greater homogeneity of its members. There are two financial institutions for that. First is the Eurasian Development Bank, established in 2006 with charter capital of $1.5 billion (its current investment portfolio is ca. $2.6 billion; all in all, it has provided more than $5 billion of loans, 50% of them for infrastructure). Second is the Eurasian Fund for Stabilization and Development, established in 2009, endowed with $8.5 billion, which flow into two types of loans – sovereign budget support and investment projects at very favorable rates (hydropower, automobile roads, etc.). To the date, the fund has allocated ca. $5.2 billion.

Regional financial stability is an integral part of economic growth. To secure such stability, it is critical to expand the range of financial instruments denominated in regional currencies, incorporate national savings into investment flows, and stimulate private capital to become involved in long-term regional projects. The ASEAN programs initiated and implemented over the last decade are impressive in width and depth, although progress is gradual.

5. CONCLUSION

The structure of mutual economic ties, trade and investment flows in particular, largely determines the financial integration strategies pursued by ASEAN member states. The key macroeconomic objectives in this regard are to ensure regional financial stability and protect the markets from significant global trade fluctuations and problems caused by capital flight. The measures implemented by ASEAN member states in the area of financial integration were essentially directed at attainment of the appropriate threshold levels of development, which would allow them to attain a positive economic impact from regional integration. There is relatively small but tangible progress so far. Over the last decade, financial integration processes in ASEAN member states have been visible in such areas as increasing capital mobility and developing securities markets within the association.

We conducted an assessment based on the six criteria – general level of development, foreign trade openness, mutual trade, the quality of macroeconomic policy, financial depth, and financial openness (Table 4). We conclude that, by most criteria, ASEAN is relatively well positioned to benefit from deeper financial integration (and better than the EAEU).

Comparative analysis has shown that the financial and economic crises had a truly defining impact on the dynamics of regional financial integration in the ASEAN, EU, and EAEU. Even though the ASEAN had been toying with various regional financial management ideas before the 1997-1998 crisis, the real breakthrough occurred only after its member states realized that it was imperative to secure financial stability using, among other things, various regional cooperation mechanisms. By the same token, rapid progress in the Eurasian Union was triggered by the 2008-2009 crisis. Last but not least, the EU, when confronted by the 2009-2011 crisis (including the near default in Greece), initiated reforms relevant to the bond markets and the establishment of a banking union. Crisis-driven integration seems to be a strong phenomenon across the globe.

Comparative analysis also demonstrates that there is a substantial "learning factor" in this technically complicated field. In practice, when seeking to attain its tactical objectives, the ASEAN relies heavily on the EU experience, although it is usually not directly adaptable to Southeast Asian macroeconomic and political realities. We also see that the EAEU, in turn, is currently taking a close look at ASEAN's experience of integration of the financial markets.

The structural characteristics of these regional blocks remain crucial. They determine the specific features, strategy, and limitations of regional financial integration in each particular case.

On the normative side, regional integration as concerns the liberalization of capital markets and, in particular, the banking sector, proceeds with the most difficulty. In the future, the ASEAN will need to focus particularly on the integration and strengthening of the banking sector. Based on the EU experience, it will be necessary to resolve the problems caused by the lack of harmonized legislation required for integration of the banking services market and development of cross-border banking within the ASEAN, and to assure coordination of operations conducted by national supervisory bodies.

Technically, we recommend that particular attention be paid to monitoring developments in regional financial integration. Monitoring "real" FDI flows (cleared of the off-shore and SPV factor), the dynamics of ASEAN banks' relative share, the dynamics of QABs, and the actual use of swaps will provide a more accurate picture.

References

ADB, ASEAN. 2013. *The Road to ASEAN Financial Integration: A Combined Study on Assessing the Financial Landscape and Formulating Milestones for Monetary and Financial Integration in ASEAN.* Manila: Asian Development Bank.

ADB. 2016. *ASEAN Infrastructure Fund.* Manila: ADB. Available at: https://www.adb.org/sites/default/files/publication/221281/aif-brochure-2016.pdf

Aizenman, J., Jinjarak, Y., & Park, D. 2011. Evaluating Asian Swap Arrangements. *Asian Development Bank Institute Working Paper*, No. 297. Available at: https://www.adb.org/sites/default/files/publication/156152/adbi-wp297.pdf.

Almekinders, G., Fukuda, S., Mourmouras, A., Zhou, J., & Zhou, Y. S. 2015. *ASEAN Financial Integration*. IMF Working Paper, WP/15/34/, February. Available at: https://www.imf.org/external/pubs/ft/wp/2015/wp1534.pdf

ASEAN. 2015a. *ASEAN Investment Report 2015: Infrastructure Investment and Connectivity*. Jakarta: ASEAN Secretariat. Available at: http://www.asean.org/wp-content/uploads/2015/12/ASEAN-Investment-Report-2015.pdf

ASEAN. 2015b. *AEC Blueprint 2025.* http://www.asean.org/storage/images/2015/November/aec-page/AEC-Blueprint-2025-FINAL.pdf, available as of October 1, 2017.

ASEAN. 2016. *Economic Community Chartbook 2016.*

Calvi, R. 2010. *Assessing Financial Integration: A Comparison between Europe and East Asia.* European Economy - Economic Papers, No. 423. Available at: http://ec.europa.eu/economy_finance/publications/economic_paper/2010/pdf/ecp423_en.pdf.

Chia, S.Y., & Plummer M. 2015. *Asian Economic Cooperation and Integration. Progress, Challenges and Future Directions.* Cambridge: Cambridge University Press.

Chinn, Menzie D., & Ito, H. 2006. What Matters for Financial Development? Capital Controls, Institutions, and Interactions. *Journal of Development Economics,* 81 (1), October, pp. 163-192.

EDB Centre for Integration Studies. 2017a. *Exchange Rate Fluctuations within the EAEU in 2014–2015: Analysis and Recommendations*. Report No. 44. Saint Petersburg: Eurasian Development Bank. Available at: https://eabr.org/en/analytics/integration-research/cii-reports/exchange-rate-fluctuations-within-the-eaeu-in-2014-2015-analysis-and-recommendations/ (In Russian).

EDB Centre for Integration Studies. 2017b. *An Assessment of Barriers to Increasing the Volume of National Currencies in the EAEU Mutual Transaction.* Report No. 47. Saint Petersburg: Eurasian Development Bank (in Russian).

Eurofi. 2011. *The Europe 2020 Project Bond Initiative*. The Eurofi Financial Forum, September 15-16, Wroclaw. Available at: https://www.eurofi.net/wp-content/uploads/2012/11/The-Europe-2020-Project-bond-initiative.pdf

Kose, M. A., Prasad, E. S., Rogoff, K. S., & Wei, Sh.-J. 2009. *Financial Globalization and Economic Policies.* Brookings Global Economy and Development Working Paper, No. 34, April. Available at: https://www.brookings.edu/wp-content/uploads/2016/06/04_financial_globalization_prasad.pdf.

Kose, M. A., Prasad, E. S., Rogoff, K., & Wei, Sh.-J. 2006. *Financial Globalization: A Reappraisal.* NBER Working Paper, No. 12484, August. Available at: http://www.nber.org/ papers/w12484.

Kose, M. A., Prasad, E. S., & Taylor, A. D. 2009. *Thresholds in the Process of International Financial Integration.* Brookings Global Economy and Development Working Paper, No. 35, May. Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1408154.

Kurihara, T. 2012. *Achievements of Asian Bond Markets Initiative (ABMI) in the Last Decade and Future Challenges*. OECD-ADBI 12th Roundtable on Capital Market Reform in Asia, February 7, Tokyo. Available at: https://www.oecd.org/finance/financial-markets/49700575.pdf.

Lee, I. 2012. *Ten Years of the Asian Bond Markets Initiative (ABMI).* KCMI Capital Market Opinion, May 8. Available at: http://www.ksri.org/kcmifile/cmweekly_eng/olddata/77_1_1.pdf.

Nipawan, P. 2015. *The ASEAN Way of Investment Protection: An Assessment of the ASEAN Comprehensive Investment Agreement*. PhD thesis, University of Glasgow. Available at: http://theses.gla.ac.uk/6954/

Pelkmans, J. 2018. ASEAN Economic Community, Pragmatism versus Conceptualism. Mimeo. *Asia-Pacific Business Review*

Ramkishen, S. R. 2012. Management of Exchange Rate Regimes in Emerging Asia. *Review of Development Finance*, 2 (2), April–June, 53-68.

Schoenmaker, D. 2011. The Financial Trilemma. *Economics Letters*, 111 (1): 57-59.

Shimizu, S. 2014. ASEAN Financial and Capital Markets: Policies and Prospects of Regional Integration. *Pacific Business and Industries*, 14 (54). Available at: https://www.jri.co.jp/MediaLibrary/file/english/periodical/rim/2014/54.pdf.

Thavaramara, T. 2010. *Progress and Issues in Capital Markets Integration: ASEAN Experience*. OECD-ADBI 11th Roundtable on Capital Market Reform in Asia, February 23, Tokyo. Available at: https://www.oecd.org/finance/financial-markets/44921142.pdf.

Volz, U. 2013. *ASEAN Financial Integration in the Light of Recent European Experiences*. SOAS, University of London and German Development Institute, May 12. Available at: http://eprints.soas.ac.uk/16679/1/ASEAN%20Financial%20Integration%20in%20the%20Light%20of%20Recent%20European%20Experiences%2012May2013.pdf

Yamaguchi, A. 2014. *Progress of Bond Markets in East Asia.* Institute for International Monetary Affairs Newsletter, No. 20. Available at: https://www.iima.or.jp/Docs/newsletter/2014/NL2014No_20_e.pdf

Wei, S.-J. 2001. Domestic crony capitalism and international fickle capital: Is there a connection? *International Finance*, Spring, 15–46.