

**CAPITAL MARKETS IN ASIA:  
CHANGING ROLES FOR ECONOMIC DEVELOPMENT**

EDITED BY

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## CONTENTS

- List of Tables
- List of Figures
- Acknowledgements
- List of Contributors
- 1 Introduction: Foundation for Continuing Economic Development  
*Donna Vandenbrink*
- 2 The Capital Market in Indonesia's Economy: Development and Prospects  
*Mochammad Rosul*
- 3 Capital Market Development in the Philippines: Problems and Prospects  
*Emilio T. Antonio, Jr. and Victor A. Abola*
- 4 Capital Market Development in Thailand  
*Pakorn Vichyanond*
- 5 The Role of China's Securities Market in SOE Reform and Private Sector Development  
*Zhang Wenkui*
- 6 The Role of Hong Kong Capital Markets in Financing Chinese Mainland Enterprises  
*Edward K.Y. Chen and Winnie P.H. Poon*
- 7 Singapore as a Regional Financial Centre  
*Denis Hew*
- 8 Development of the Capital Market in Malaysia  
*Ranjit Ajit Singh and Zainal Aznam Yusof*
- 9 Evolution of the KOSDAQ Stock Market: Evaluation and Policy Issues  
*Inseok Shin*
- 10 Financing Taiwan's Knowledge-intensive Firms  
*Ya-Hwei Yang*
- 11 The Future Role of Japanese Equity Investments in the Industrial Development of East Asia  
*Seiichi Masuyama and Donna Vandenbrink*

## LIST OF TABLES

- 2.1 Growth Rate of Real GDP by Industry at Constant 1993 Prices, 1993-2001
- 2.2 Growth of Real GDP by Expenditure at Constant 1993 Prices, 1993-2001
- 2.3 Annual Inflation Rate, 1991-2001
- 2.4 Sources of Funds for Indonesia's Economic Development, 1991-2001
- 2.5 Bond and Share Issues by Listed Companies, 1991-2001
- 2.6 Stock Market Transactions by Foreign and Domestic Investors, 1992-2001
- 2.7 Real and Financial Sector Investment, 1991-2001
- 2.8 Composite Share Price Index, 1991-2001
- 2.9 Transaction Volume and Value on the Jakarta Stock Exchange, 1991-2001
- 2.10 Recent Development of the Securities Industry, 1999-2000
- 2.11 Government Bonds Outstanding by Program, 1999-2002
  
- 3.1 Amount and Composition of Financial Assets by Type of Institution, year-end 1980-2001
- 3.2 Amount and Composition of Non-bank Financial Institution Assets, 1991-99
- 3.3 Contractual Savings by Type of Asset, 1985-2000
- 3.4 Pension Fund Contributions as a Share of GDP 1989-2000
- 3.5 Net Income of Public Pension Funds, 1989-2001
- 3.6 Number and Proceeds of New Listings, 1987-2001
- 3.7 Equities Market Transaction Costs in Selected Economies, 1997 Q4
- 3.8 Outstanding Value of Regular Issue Government Securities, 1995-2001
- 3.9 Yield on Long-term Government Bonds in Philippines, Australia, and India, September 2002
- 3.10 Issues of Commercial Paper, 1995-2001
- 3.11 Commercial Paper Outstanding Year-end 1995-2000
  
- 4.1 Trading and Outstanding Value of Thai Bond Dealing Centre, 1995-2001
- 4.2 Turnover Ratios of Bonds in the Thai Bond Dealing Centre
- 4.3 Issuance of Thai Debt Securities, 1993-2001
- 4.4 Thai Government Cash Balance
- 4.5 Government Bonds Issued for Re-capitalisation by Type, 1998-2000
- 4.6 Capital Market Mobilisation and Changes in Commercial Bank Credit, 1993-2000
- 4.7 Newly Issued Securities by Type of Instrument, 1993-2000
- 4.8 Corporate Bond Offerings by Type, 1995-2001
- 4.9 Business's Fund Mobilisation in Thailand's Capital and Money Markets
- 4.10 Comparison of Capital and Money Market Fund Raising in Selected Economies, 1988-2000
- 4.11 Allocation of Capital Market Funds and Bank Credit by Sector
- 4.12 Listing Ratios among All Companies and Eligible Companies, by Number and Paid-in Capital, end 1999
- 4.13 Number and Capital of Companies Eligible for SET Listing by Sector, end 1999
- 4.14 Equity versus Debt Composition of Capital Market Funds Raised in Selected Economies, 1988-2000
- 4.15 Amount and Share of Funds Tapped in Capital Markets by Type of Instrument, 1988-2000
- 4.16 Investors in Newly Issued Corporate Bonds, 1995 and 1999
- 4.17 Amount and Distribution of Investment in Government Debt Securities by Type of Investor, 1995-2001
- 4.18 Composition of Household Savings, 1993 and 1998
- 4.19 Amount and Composition of SET Turnover by Type of Investor, 1993-2001
  
- 6.1 Market Value of Bonds Listed in Hong Kong and New York, 1997-2000

- 6.2 Market Value of Bonds versus Equity Market Capitalisation in Hong Kong and New York, 1997-2000
- 6.3 Ranking of Asian Pacific Bonds Markets by Market Value of Listed Bonds
- 6.4 Market Capitalisation of the Stock Exchange of Hong Kong by Industry, 1991-2000
- 6.5 Distribution of Listed Companies by Market Value of Ordinary Shares, 1996-2000
- 6.6 Distribution of Hong Kong Investors by Type of Trade, 1991-2000
- 6.7 Industry Composition of the Hang Seng China-affiliated Corporations Index (HSCCI), 1993-2000
- 6.8 Number and Distribution of H Shares on Growth Enterprise Market (GEM) and on Stock Exchange of Hong Kong Main Board by Industry, 1993-2000
- 6.9 China-domiciled Companies Cross-listed in New York, London, Singapore, and Hong Kong, 1993-2000
- 6.10 Market Capitalisation of Chinese Enterprises Listed in Overseas and Domestic Markets, 1993-2000
- 6.11 Trading Volume of Equities Listed in Hong Kong and in Mainland China, 1993-2000
- 6.A1 China-Affiliated Corporations (Red Chips) Listed in Hong Kong, in Descending Order of Market Capitalisation, December 2000
- 6.A2 Chinese Enterprises on Hong Kong, New York, London, and Singapore Stock Exchanges, December 2000
  
- 7.1 Characteristics of Singapore's Largest Banks after M& As in 2001
- 7.2 Domestic and Overseas Assets of Singapore's Largest Banks, 1999
- 7.3 Foreign Banks in Singapore as of September 2002
  
- 8.1 Funds Raised in Malaysia's Capital Market
- 8.A1 Ranking of Major Bourses by Domestic Market Capitalisation
- 8.A2 Consolidation and Integration of Market Institutions in Malaysia and Selected International Markets
- 8.A3 Amount and Share of Malaysian Government Securities Outstanding by Original Maturity
- 8.A4 Malaysian Government Securities Issuance Since 1990
  
- 9.1 Ownership Structure of the KOSDAQ Stock Market, Inc.
- 9.2 KOSDAQ Historical Highlights
- 9.3 Listing and De-listing on the KOSDAQ Market, by Type of Business, 1987-2001
- 9.4 Capital Raising in the KOSDAQ Market, 1996-2001
- 9.5 Composition of Ownership of Outstanding Shares on the KSE and KOSDAQ by Type of Investor, 1999 and 2000
- 9.6 Trading Volume and Turnover Rates on the KOSDAQ Market, 1997-2001
- 9.7 Share of KOSDAQ Trading Value by Type of Investor, 1999-2001
- 9.8 Market Capitalisation of KSE and KOSDAQ, 1997-2001
- 9.9 Composition of KOSDAQ-Listed Companies by Industry
- 9.10 Growth Contribution of the IT Industry, 1998-2001
- 9.11 KOSDAQ Market Listing Requirements for Ordinary and Venture Businesses
  
- 10.1 Funding Sources at Different Stages of Enterprise Development in Taiwan
- 10.2 Direct and Indirect Financing by Non-government Sector, 1980-2001
- 10.3 Characteristics of Taiwan's Stock Markets, 1995-2002
- 10.4 Value of TSE- and OTC-Listed Manufacturing Companies by Traditional and Non-traditional Industries, 1999-2001
- 10.5 Value of Manufacturing Output by Traditional and Non-traditional Industries, 1999 and 2000
- 10.6 Top 20 Countries by Amount of Venture Capital Investment, 1999
- 10.7 Top Countries, by Average Growth Rate of Venture Capital Investment for 1995-99
- 10.8 Venture Capital Investment by Industry and Stage of Development, Cumulative

- through 2000
- 10.9 Venture Capital Investment in the Early Stages of Enterprise Development, 1994-2000
  - 10.10 Composition of Venture Capital Funds by Source
  - 11.1 Japanese FDI and FPI Outstanding, End of 1996 and 2002
  - 11.2 Long Term Return on Investment in Japanese Stocks and Bonds, 1960-2000
  - 11.3 Composition of Household Financial Wealth in Japan, Europe and the United States, end 2000
  - 11.4 Financial Assets of Institutional Investors in Selected Economies, 1992 and 1999
  - 11.5 Weight of Passively Managed Commingled Accounts of Japanese Trust Banks
  - 11.6 Foreign Stocks, by Area, in Assets Managed by Japanese Investment Trusts, 1995-2002
  - 11.7 East Asian Stocks in the Assets Managed by Japanese Investment Trusts by Country

## LIST OF FIGURES

- 3.1 Ratio of Market Capitalisation to GNP, 1984-2000
- 3.2 Market Capitalisation to GNP Ratios of Selected Asian Economies, 1984-2000
- 3.3 Per capita GNP vs. Market Capitalisation as a Percentage of GNP, 2000
  - Box 1 Basic Elements of the Retirement System
  
- 4.1 Composition of SET Turnover Value by Type of Investor
- 4.2 Portfolio Investment Inflows vs. Current Account, 1990-2000
  
- 5.1 Funds Raised in the Shanghai and Shenzhen Markets, 1991-2001
- 5.2 Number of Enterprises Listed on the Shanghai and Shenzhen Securities Exchanges, 1990-2001
- 5.3 Total and Negotiable Capitalisation of the Shanghai and Shenzhen Markets, 1994-2001
- 5.4 Public Shareholding of Listed Companies, 1997-2000
- 5.5 Number of Private Enterprises Entering Securities Markets, 1993-2001
- 5.6 Acquisitions of Shell Companies by Private Enterprises, 1997-2001
- 5.7 Private Sector's Share of GDP, 1997-1999
  
- 7.1 Total Assets of DBUs (Commercial Banks), 1970-2003
- 7.2 Total Assets of ACUs, 1970-2003
- 7.3 Market Capitalisation of Singapore Equity Market, 1986-2003
- 7.4 Market Capitalisation of SESDAQ, 1987-2003
- 7.5 Annual Turnover of SIMEX/SGX-DT Futures and Options, 1993-2003
- 7.6 Issuance of Corporate Bond in Singapore Dollars and Other Denominations, 1995-2003
- 7.7 Total Assets under Management, 1989 to 2003
  
- 8.1 Overview of the Institutional Structure of the Malaysian Capital Market
- 8.2 International Bonds Raised by Malaysian Companies
- 8.3 Annual and Cumulative Foreign Net Portfolio Investment into Malaysia
- 8.4 Gross Equity Investment in Business Activities to and from Malaysia
  
- 9.1 Regulatory Structure of the KOSDAQ Market
- 9.2 Trends in KOSDAQ Index, Venture Index and KOSPI KSE Index
- 9.3 Cumulative Daily Stock Returns 1999.1-2001.12
- 11.1 Japanese Corporations' Return on Gross Assets, 1955-1999
- 11.2 Public and Private Pension Assets in Japan
- 11.3 World Stock Market Capitalization by Region
- 11.4 Channels of Japanese Investment in Asian Stocks
- 11.5 Composition of Japan's Outward Stock Investment by Investor, 1990-2003
- 11.6 Composition of Household Savings, 1960-2000
- 11.7 Shares as a Percentage of Financial Assets of Institutional Investors in Selected OECD Economies, 1990, 1995, 1999
- 11.8 Composition of International Assets in Japan and the United States, 2000
- 11.9 Composition of Japan's Employee Pension Funds, 1991-2000

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## FOREWORD

The AT10 co-operative research program for 2000-01 showed how the economies in East Asia are striving to achieve more indigenously driven development by upgrading their industrial sectors. In many economies in the region, financing start-up firms in dynamic industries such as ICT has become a major issue. The banking system, which dominates financing in East Asia, is not well suited to this task, and in some economies it is also plagued with massive non-performing loans.

In many ways, capital market financing meets the needs of East Asian economies to support their future industrial development. It offers a substitute for the ailing banking system. In addition, greater reliance by East Asian firms on capital markets may strengthen their competitiveness by stabilising access to funds for growth and improving corporate governance. And, since capital markets provide start-up as well as growth financing, a greater role for capital markets in the region will support the emergence of indigenous firms. Finally the increased requirements for financial information that emerge with the development of capital markets will drive the formation of an information infrastructure in the region.

To date, the spread of global capital markets has had both positive and negative impacts on East Asia. It has increased capital inflows, created pressure to improve corporate governance and to develop institutions that meet international standards, and introduced technological and managerial know-how from international financial institutions. On the other hand, it has exposed the region to financial volatility and it may encourage corporate management to take a shorter-term perspective.

The Tokyo Club Foundation for Global Studies asked researchers from the leading think tanks in ten East Asian economies (the AT10) to examine the status of capital markets in their home economies, considering the places of capital markets and banks as sources of financing, institutional changes intended to support the development of the capital market, the role of global capital markets and financial institutions, and the impact of capital market development on the local economy. The researchers were asked to prepare a paper on the aspect of capital market development that they saw as most significant to their home economy.

In March 2002, the AT10 researchers met in Tokyo to present and discuss these papers under the theme "The Role of Capital Markets in Asian Economic Development". I am pleased that the Tokyo Club, in co-operation with ISEAS and NRI, can share the results of their work.

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