Growing Asia: Its Promising Markets

Sung-Uk Yang
Table of Contents

I. Intro: Recent Issues
II. Comparisons of Asia and Western Markets
III. Quantitative Growth toward an Asian Century
IV. How to Improve Qualitative Growth: Case of Korea
V. Next Level: Regional Cooperation
I. Intro: Recent Issues

US Rating Downgrade

AAA

18 Countries Including Canada, France, Germany and UK

AA+

USA

The KOSPI Plummeted
302.86 points Only in Five Days

Asia Stock Price Falling Rate on August 8th

Korea | Japan | Taiwan
--- | --- | ---
-3.82 | -2.18 | -3.82
China | Hong Kong | Australia
--- | --- | ---
-3.79 | -2.17 | -4.21

(Unit: %)
I. Intro: Recent Issues

US Rating Downgrade

“As the market stabilizes, global funds will be moved to Asian countries that have healthy economic fundamental and capital/current balance, and solid financial soundness.”

“Although US credit rating downgrade won't have direct effect on Asia, it will cause slowdown in the global economy, a decrease in liquidity and a worsening of the conditions of raising funds. These will have negative influence on the credit ratings of Asian countries.”

Prospects of Reflective Interests in Asia in Mid-long Term

“S&P's decision to downgrade the US credit rating is the reflection of decline in their position in the long term. Asian countries will have less dependence on US dollar. Chinese Yuan, promoted to be an international currency by Chinese government, will replace it.”

“Singapore and Malaysia will benefit from US credit rating downgrade. Singapore is the only country that maintains AAA grade in Asia. Malaysia is likely to be the target for asset allocation of Middle East fund because it has the world's largest Islamic bond market.”
Table of Contents

I. Intro: Recent Issues

II. Comparisons of Asia and Western Markets

III. Quantitative Growth toward an Asian Century

IV. How to Improve Qualitative Growth: Case of Korea

V. Next Level: Regional Cooperation
II. Comparison of Asia and Western Markets

Financial Assets (2011)

US
- Securities & Funds: 52.5%
- Cash & Deposits: 14%
- Other: 3.4%

Japan
- Securities & Funds: 55.3%
- Cash & Deposits: 28.4%
- Other: 4.0%

Korea
- Securities & Funds: 29.5%
- Cash & Deposits: 15.3%
- Other: 24.5%

Source: Bank of Korea, U.S. FRB, Cabinet Office of Japan
II. Comparison of Asia and Western Markets

Quality of Financial Markets

<table>
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<td>Hong Kong</td>
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<tr>
<td>Republic of Korea</td>
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</table>

Source: World Economic Forum, Milken Institute

Capital Access Index measures Macroeconomic environment, Institutional environment, Banking system development, equity and bond market development, alternate source of capital, and international funding.
Table of Contents

I. Intro: Recent Issues
II. Comparisons of Asia and Western Markets
III. Quantitative Growth toward an Asian Century
IV. How to Improve Qualitative Growth: Case of Korea
V. Next Level: Regional Cooperation
III. Quantitative Growth toward an Asian Century

Qualitative Growth in Korea

“If today’s fast-growing Asian economies become mired in the Middle Income Trap, Asia would fall far short of the Asia Century.”

(ADB, “ASIA 2050 – Realizing the Asian Century”)

Source: IMF World Economic Outlook, October 2010
III. Quantitative Growth toward an Asian Century

Current State (2010)

Asia GDP: $16 trillion

Source: IMF, Centennial Group Projection

Asian Century Scenario (2050)

Asia GDP: $148 trillion
III. Quantitative Growth toward an Asian Century

- Points to Discuss

1. Tremendous quantitative growth in the Asian securities market but still room for qualitative improvement and worries for middle income trap

2. Discussion to seek ways for qualitative growth
   (Development of software, not hardware)

3. Discussion to seek ways for regional cooperation and Asia’s global financial leadership
Table of Contents

I. Intro: Recent Issues

II. Comparisons of Asia and Western Markets

III. Quantitative Growth toward an Asian Century

IV. How to Improve Qualitative Growth: Case of Korea

V. Next Level: Regional Cooperation
IV. How to Improve Qualitative Growth: Case of Korea

Philosophy

- Govt. & Assoc. initiatives
- Place
- Products
- Professionals
- Promotion

Deregulation

Training & compensation

Advocay Role / Investor Education
IV. How to Improve Qualitative Growth: Case of Korea

DEREGULATION

Before the Crisis

Heavily Regulated

Asian Market

Western Market

Level Playing Field

After the Crisis

Loosely Regulated

Asian Market

Western Market
IV. How to Improve Qualitative Growth: Case of Korea

DEREGULATION

Equal Regulation between Western and Asian Markets

- Level Playing Field
- No Regulatory Arbitrage

The Role of SROs is Important

Smart Regulation

- Promote Creativity
- Investor Protection
- Macro Prudential
### IV. How to Improve Qualitative Growth: Case of Korea

#### TRAINING & COMPENSATION

<table>
<thead>
<tr>
<th>Global players in the IT industry</th>
<th>Global players in the securities industry</th>
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<tbody>
<tr>
<td>Korea: Samsung, LG</td>
<td>Asians reluctant in investing</td>
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<tr>
<td>Japan: Sony, Toshiba</td>
<td>Finance and Intangible Assets</td>
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<td>China: Baidu, China Mobile</td>
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<td>Taiwan: Hon Hai</td>
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</tbody>
</table>
IV. How to Improve Qualitative Growth: Case of Korea

TRAINING & COMPENSATION

How to foster global players
- Training programs for financial market specialists
- Enhance entrepreneurship
- Proper compensation for professionals
- Improve networking and the reputation of the securities industry

『Asia Institute of Financial Investment Council』
Enhance cooperation among securities-related institutions
(joint-education, online education, mutual licensing certificates)
IV. How to Improve Qualitative Growth: Case of Korea

INVESTOR EDUCATION

- Concrete Disclosure Requirement
- Advocacy role of Association for Gov. Support
- Financial knowledge is important for investors
  - Therefore, investor education is essential
- KOFIA supports investor education through the KCIE and AFIE

Regulated Market

De-regulated Market
IV. How to Improve Qualitative Growth: Case of Korea

GOVT. & ASSOC. INITIATIVES

- Maintain balanced development between banks and securities firms
- Tax benefits for securities trading, financial investment, etc.
- Nurturing institutional investors such as pension funds
- Prevent regulatory arbitrage between countries and industries
Table of Contents

I. Intro: Recent Issues
II. Comparisons of Asia and Western Markets
III. Quantitative Growth toward an Asian Century
IV. How to Improve Qualitative Growth: Case of Korea
V. Next Level: Regional Cooperation
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Strategic Framework

Regional Cooperation

National Action

Global Agenda

“Regional Cooperation and integration are critical for Asia’s march towards prosperity.”

(ADB, “ASIA 2050 – Realizing the Asian Century”)
V. Next Level: Regional Cooperation – Areas to be improved

Key Initiatives for Regional Financial Reform: Policy perspective

- Open capital markets to greater private sector competition and participation for financial innovation and institutional capacity
- Foster greater regional cooperation in finance in terms of financial market infrastructure
- Improve risk management standard.
- Create open regional networks in capital markets that meet global standards in terms of scale, transparency, efficiency and robustness
- Increase voice in the international arena through regional subsets of the FSB, BIS, IOSCO to ensure regional inputs into global policy decisions as well as implementation and enforcement of global standards in Asia
V. Next Level: Regional Cooperation

New Regional Institutions

- Chiang Mai Initiatives
- ASEAN + 3 Bond Market Initiatives
- Asian Financial Stability Dialogue
- Asian Infrastructure Fund
- Pan-Asian Infrastructure Forum, etc.

- Asian Monetary Fund (AMF)
- Asian Capital Market Initiatives
V. Next Level: Regional Cooperation

**ASEAN + 3 Bond Market Initiatives**

It is necessary to actively discuss the future direction of the regional bond markets, including the establishment of the *Asian SRO*, by forming the SRO Forum inside ABMF.

**The reasons why**

In order to utilize Asia’s regional savings within the region, it is necessary to promote harmonization and integration of the regional bond markets by standardizing cross-border bond issuance and trading.

In order to establish the Asian Bond Standard, it is desirable to set up an Asian SRO, which can swiftly respond to the rapidly changing market environment and actively reflect the various demands of market participants including issuers and investors.
Asian SRO Significance

Why Integration of Asian Bond Markets?

Purpose: The integration of Asian bond markets is to offer convenience to investors, issuers, and financial firms in the process of issuance, distribution, and settlement of bonds.

By turning the Asian bond market into a place suitable for private placement from professional investors, frictions arising from different regulations among nations are to be minimized. The composition and operation of this market are possible through self-regulations based on cooperation among market participants.

The European cross-border market is a good example of integration of different systems.

ICMA is an SRO overseeing the European capital market, including bonds, and serves as an example for Asia on the introduction of a self-regulation framework.
V. Next Level: Regional Cooperation

Foundations for setting up Asian SRO

**Setting up standards on self-regulation**

Considering countries’ diverse regulatory environment and the degree of their capital market development, self-regulation led by the market, rather than public regulation, is more appropriate for the cross-border Asian bond market.

This would help establish the standards for the issuance and trading on the Asian bond market, and increase the usage of the standards.

Ultimately, it is necessary to establish Asian SRO that would be an ICMA Asian version.
Foundations for setting up Asian SRO

Establishing an SRO Forum within ABMF

To establish an Asian-version ICMA, it is desirable to set up an SRO Forum within ABMF at an early stage, which is to be composed of associations, exchanges, and market participants from Asian countries.

The SRO Forum should build consensus on the need to establish Asian SRO, clarify its definitions of SRO functions, enhance its image, and draw up specific recommendations for the establishment.

Along with ABMF members, the SRO Forum should involve academic and industrial specialists from each country in order to formulate regulations and standards on issuance and trading.
V. Next Level: Regional Cooperation

**SRO Forum Structure**

- ASEAN+3 Finance Ministers Meeting
- ASEAN+3 Vice-Finance Ministers Meeting
- ABMI Steering Committee

**TASK FORCE**

- TF1
- TF2
- TF3
- TF4
- TACT
- Working Team

**ABMF**

- SRO Forum (Asian SRO)
  - SF1
  - SF2
Thank you