

Rising to the Challenge in Asia: A Study of Financial Markets

Volume 1
An Overview

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Foreword

The Asian currency and financial crisis has had far-reaching effects on the regional economies and their trading partners. These effects have threatened to wash away the region's significant social and economic advancement achieved during the preceding years of rapid growth. The crisis has also unveiled many intricate problems and challenges in macroeconomic management, banking and capital markets management, institutional capacity, and governance of the financial systems in the region.

Recognizing the urgency of addressing these problems and challenges, the Economics and Development Resource Center of the Asian Development Bank (ADB) undertook a regional study of financial markets in nine developing member countries: People's Republic of China, India, Indonesia, Republic of Korea, Malaysia, Pakistan, Philippines, Thailand, and Viet Nam. The objectives of the study were to analyze and deepen our understanding of the sources of the crisis in the currency and financial markets, to provide a useful basis for designing and implementing preventive measures and refocused country strategies, and to help ADB and its member countries build robust and sustainable financial systems in the region.

The study was designed, supervised, and coordinated by S. Ghon Rhee, Resident Scholar, 1997–1999. A large number of ADB staff and renowned scholars and experts contributed to this study.

Regional policy issues and recommendations based on the findings of the study were discussed at the High-Level Workshop on the Asian Financial Crisis in Tokyo, on 25–26 March 1999. The workshop was hosted by the ADB, the ADB Institute, and the Institute of Fiscal and Monetary Policy of the Ministry of Finance of Japan.

The present series of publications seeks to bring the research findings to a much wider audience and hopes to contribute to a better understanding of the Asian financial crisis and how its recurrence can be prevented in the future.

Jungsoo Lee
Chief Economist

Preface

Rising to the Challenge in Asia: A Study of Financial Markets presents the findings of a study carried out under *Regional Technical Assistance 5770: Study of Financial Markets in Selected Member Countries*. Many Asian Development Bank staff members and outside experts contributed to the study's successful completion.

The core members for the study were Ramesh Adhikari, David Edwards, Tobias Hoschka, Sudipto Mundle, Soo-Nam Oh, Pradumna Rana, Yutaka Shimomoto, Reza Siregar, Peggy Speck, Ramesh Subramaniam, and Vo Van Cuong. The outside experts were Stephen Cheung (Hong Kong, China), Yoon Je Cho (Republic of Korea), Jang-Bong Choi (Republic of Korea), Catherine Chou (Hong Kong, China), G.H. Deolalkar (India), Maria Socorro Gochoco-Bautista (Philippines), Akiyoshi Horiuchi (Japan), Masahiro Kawai (Japan), Mohammad Zubair Khan (Pakistan), Joseph Y. Lim (Philippines), Sang-Koo Nam (Republic of Korea), Anwar Nasution (Indonesia), Edward Ng (Singapore), Jaeha Park (Republic of Korea), Mohd. Hafiah Piei (Malaysia), Ken-Ichi Takayasu (Japan), Khee Giap Tan (Singapore), S. K. Tsang (Hong Kong, China), Stephen Wells (United Kingdom), Richard Werner (Germany), Min-Teh Yu (Taipei, China), and Barents Group LLC (KPMG).

Thirty-seven reports are contained in a series of 12 volumes:

Volume 1: Regional Overview

- Macroeconomic Policy Issues
- Banking Policy Issues
- Capital Market Policy Issues

Volume 2: Special Issues

- Asset Management Entities
- Deposit Protection Schemes

Volume 3: Sound Practices

- Corporate Governance (Hong Kong, China)
- Currency Board (Hong Kong, China)
- Central Provident Fund (Singapore)
- Dichotomized Financial System (Singapore)
- Banking Sector (Taipei, China)

Volumes 4–12: Country Studies

- Macroeconomic Policy Issues
- Banking Policy Issues
- Capital Market Policy Issues

The volumes benefited extensively from constructive comments from the Bank interdepartmental working group, and the ministries of finance, central banks, and securities and exchange commissions of the nine member countries that participated in the regional technical assistance study program and in the High-Level Workshop on the Asian Financial Crisis in Tokyo, on 25–26 March 1999. Mitsuo Sato, former President of the Asian Development Bank; Bong-Suh Lee, former Vice-President (Region West); and Peter Sullivan, Vice-President (Region East) provided strong support and guidance throughout this project.

Soo-Nam Oh coordinated the research and publication activities. Wilhelmina Paz, Lagrimas Cuevas, Anthony Ygrubay, Ruben Mercado, Virginia Pineda, and Rosalie Postadan provided administrative and technical support. The volumes were edited by Gloria Argosino, Mary Ann Asico, Graham Dwyer, and Muriel Ordoñez. Typesetting, computer graphics, and conceptualization of the cover design were done by Segundo de la Cruz, Jr.

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(June 1997–June 1999)

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Acronyms and Abbreviations

ACCSF	Asian Currency Crisis Support Facility
ADB	Asian Development Bank
AGRI	Asian Growth and Recovery Initiative
AGRP	Asian Growth and Recovery Program
AMC	asset management company
AMF	Asian Monetary Fund
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
BIBF	Bangkok International Banking Facilities
BIS	Bank for International Settlements
BOP	balance of payments
BNM	Bank Negara Malaysia
CAMEL	capital, asset quality, management, earnings, and liquidity
CAR	capital adequacy ratio
CBOT	Chicago Board of Trade
CME	Chicago Mercantile Exchange
CNS	continuous net settlement
C&S	clearing and settlement
CSD	central securities depository
CSRC	China Securities Regulatory Commission
CTF	Common Trust Fund
DB	defined benefit
DC	defined contributory
DJIA	Dow-Jones Industrial Average
DMC	developing member country
DVP	delivery versus payment
EFN	Exchange Fund note
ESCAP	Economic and Social Commission of Asia and the Pacific
EU	European Union
FIBV	Fédération Internationale des Bourses des Valeurs
FSB	Financial Supervisory Board
FSC	Financial Supervisory Commission
GDP	gross domestic product
GITIC	Guangdong International Trust and Investment Corporation
GNP	gross national product
G-7	Group of Seven
G-30	Group of Thirty
G-22	Group of Twenty-two

HKMA	Hong Kong Monetary Authority
IDB	interdealer broker
ILO	International Labor Organization
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IPO	initial public offering
ISIN	International Securities Identification Number
ISSA	International Society of Securities Administrators
ITC	investment trust company
JEXIM	Export-Import Bank of Japan
MAS	Monetary Authority of Singapore
MOF	Ministry of Finance
NAFTA	North American Free Trade Area
NASDAQ	NASD Automated Quotation System
NYSE	New York Stock Exchange
NBFI	nonbank financial institution
NERP	National Economic Recovery Plan
NMI	New Miyazawa Initiative
NPL	nonperforming loan
OECD	Overseas Economic Cooperation Fund
OPEC	Organization of Petroleum Exporting Countries
OTC	over-the-counter
PBC	People's Bank of China
PCA	prompt corrective action
PEFINDO	Credit Rating Agency (Indonesia)
PRC	People's Republic of China
PSE	Philippine Stock Exchange
REPO	repurchase agreement
RETA	regional technical assistance
RFC	Reconstruction Finance Corporation
S&P	Standard and Poor's
SBL	securities borrowing and lending
SBP	State Bank of Pakistan
SBV	State Bank of Viet Nam
SC	Securities Commission (Malaysia)
SEBI	Securities and Exchange Board of India
SEC	Securities and Exchange Commission
SECP	Securities and Exchange Commission of Pakistan
SET	Stock Exchange of Thailand
SOE	state-owned enterprises
SRO	self-regulatory organization

TBDC	Thai Bond Dealing Center
TSE	Tokyo Stock Exchange
UNDP	United Nations Development Programme
US	United States

Korea refers to the Republic of Korea.