

Enhancing Portfolio Capital Flows in Asia

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《Abstract》

Asia's financial market is characterized by three principal traits: first of all, it has a very high savings ratio in many of its countries (Thailand and China are but two examples); secondly, much of these savings are deposited in banks making the banking sector very strong and the capital market comparatively small; thirdly, there is a bias towards domestic investment, which is mainly due to a lack of information about other countries, so-called asymmetric information.

To make the information exchange as useful as possible, there should be a harmonization of financial markets within the Asian region including the areas of rules, regulations and taxes. If the markets are not coordinated, it will be very difficult to invest in other countries. The legal system should also be harmonized for the same reasons. Both these reforms require high-level talks involving Asian nations' governing bodies. The Asian Committee of Financial Regulators will be created to fulfill the need of harmonization of the financial market and financial system.

In conclusion, to enhance portfolio capital flows in Asia, there should be a continuous information exchange between Asian countries and institutions, a harmonization of the various legal frameworks, development of the financial market and its products and finally, a drive towards consumer education, particularly with regard to asset management and personal loans.

Creation of Regulators Network among East Asian Countries would enhance information exchange and promote common rules of various financial activities.

Certain Asian countries have suffered from taking consumer loans from non-bank finance companies who charge a high interest rate and so consumer education is necessary in order to minimize the unsound financial decisions Asia takes.