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ASEAN: perspectives on economic integration: ASEAN capital market integration: issues and challenges

Report

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ASEAN Capital Market Integration Issues and Challenges

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INTRODUCTION

In early April 2008, the ASEAN Finance Ministers (AFM) at a meeting in Danang, Vietnam endorsed several proposals made by the region's capital market regulators through the ASEAN Capital Market Forum (ACMF) towards integration of ASEAN capital markets. Among the key proposals was an agreement to develop an "Implementation Plan to promote the Development of an Integrated Capital Market to achieve the objectives of the ASEAN Economic Community Blueprint 2015" ("Implementation Plan 2015"). It was agreed that a Group of Experts would be established to assist in drafting the implementation plan together with the assistance of the Asian Development Bank (ADB). With the following year's ASEAN Finance Ministers' Meeting set as the timeframe to present the Plan to the Finance Ministers for their consideration, the demands for an all encompassing implementation plan was indeed a challenge – particularly given that such aspirations had been in the pipeline since the last financial crisis over a decade ago.

This objective of developing a plan became a reality when the Implementation Plan 2015 was presented to, and endorsed by the ASEAN Finance Ministers at the 13th AFM held in Pattaya, Thailand on 9th April 2009.

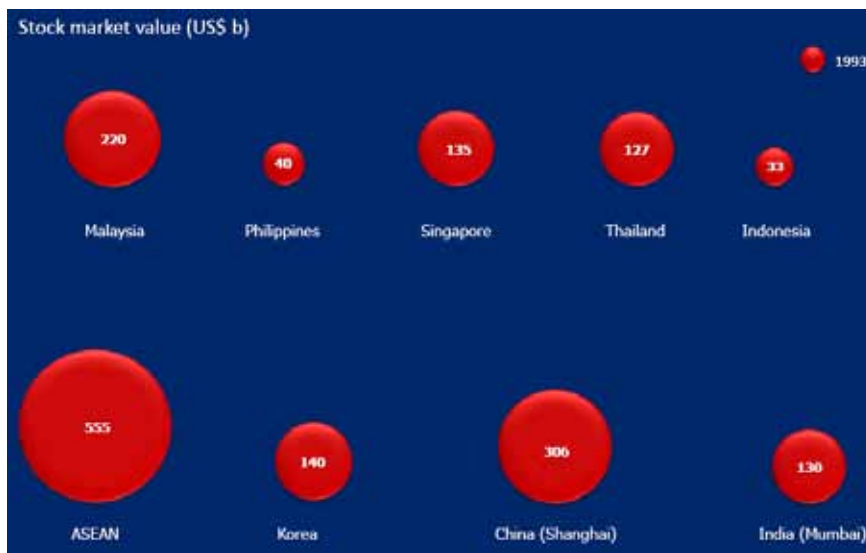
The AEC Blueprint 2015 pertaining to capital markets is intended to achieve significant progress in building a regionally integrated market, where it will enable capital to move freely within the ASEAN region, with issuers free to raise capital in different ASEAN markets and investors able to invest freely across markets. It was hoped that through the integration efforts, anyone would be able to trade in ASEAN capital market products freely in any ASEAN market at a competitive fee from a single access point, with capital market intermediaries providing services throughout ASEAN based on home country approval.

This paper provides some perspectives on the formulation and contents of the Implementation Plan 2015 and the core strategies. The paper also attempts to provide some of the background and rationale that drove the efforts and the catalytic role played by events post Asian Financial Crisis in driving efforts towards the development of the region's capital markets and consequently the integration agenda. Finally the paper concludes with an outline of the some the issues and challenges that need to be addressed in the implementation efforts.

THE ASIAN ECONOMY - FROM MIRACLE TO CRISIS...AND BACK

In the early 1990s, Asia was undergoing a period of gradual liberalisation and transformation. Riding on a wave of strong economic growth and increasing investment flows, many countries in Asia were seen as the hotspots for trade and investments. The increasing consumer base, large infrastructure-financing needs and the massive savings pools within Asia provided the perfect confluence of factors that characterized what was being described as the Asian miracle. Within Asia, ASEAN countries, such as Singapore, Thailand, Malaysia and to some extent Indonesia, whose economies were export driven, recorded GDP growth rates well above 7% joining the likes of Taiwan, Hong Kong and Korea as the new emerging tigers. Capital markets and in particular stock markets were a direct beneficiary. Markets rallied on the back of massive capital inflows and domestic investments and the market capitalisation of the ASEAN exchanges grew to a level of USD 555 billion (see Figure 1).

Figure 1. Market capitalisation (stock market value) of selected Asian countries in 1993



Source: World Federation of Exchanges

Unfortunately, around early 1997 cracks began to appear and the miracle gradually seemed to turn into a mirage. Distortions in the way in which the economies were operating, under-developed financial systems and a corporate sector with weak balance sheets in an environment of excessive capital flows led to the inevitable bursting of the asset price bubbles, falls in currency values and a severe economic downturn. The Asian Financial Crisis as the events of 1997 and 1998 came to be known was underway and it took a devastating toll on many of the countries that were severely affected, including several within the ASEAN region.

There have been numerous studies on the Asian Financial Crisis including its causes and effects and this paper does not intend to go into these areas. However, there are several key points related to the subject matter of this analysis worth noting, in relation to identifying core weaknesses and areas for strengthening the region's capital markets.

Firstly, many of the countries in the region had serious corporate governance issues, which required comprehensive reforms at many levels. Support from the government, corporate sector, industry and regulators were crucial in developing a comprehensive framework to enhance corporate governance standards.

These corporate governance reforms were wide-ranging and enhancements were made by introducing codes of corporate governance, increasing levels of transparency and disclosures and addressing gaps in financial reporting. Improvements in data dissemination and steps to increase transparency of policies could help markets address risk pricing, inhibit the build-up of imbalances and allow policymakers to take timely action to address vulnerabilities. There were also weaknesses in oversight and regulatory arrangements that needed to be addressed, which resulted in the relevant regulatory bodies being further equipped with the requisite powers and resources to effectively regulate the markets. Several major legislative amendments were promulgated to strengthen enforcement powers.

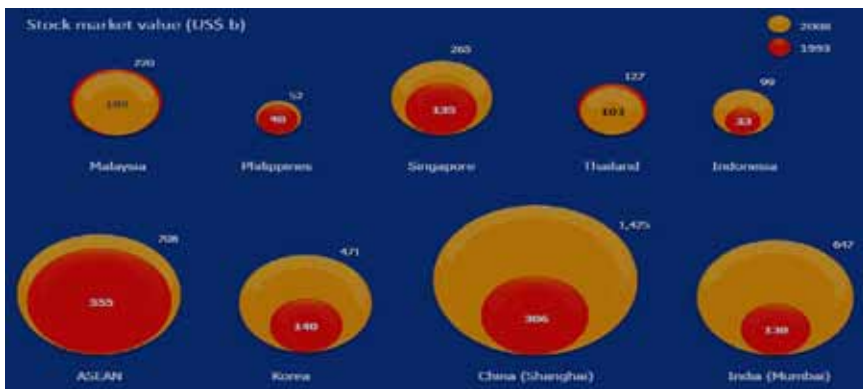
There was also a need to focus on effective diversification of sources of financing and reduce dependency on the banking system, principally by addressing maturity mis-match issues between the sources of financing and the tenure of the projects being financed, particularly for infrastructure projects. This drove efforts towards developing domestic bond markets and led to strong growth in bond markets among some of the Asian countries. There was also substantial consolidation and strengthening of domestic capital market intermediaries to better withstand challenges and shocks as well as initiatives to strengthen market institutions and also address

risk management and prudential standards. To enhance the resilience of the financial system the supervisory framework over banks and non-bank financial intermediaries was strengthened.

There was also significant debate around the issue of capital account liberalisation with contrasting views ranging from concern about the liberalisation to the adoption of still freer policies. This issue still dominates discussions on integration. Overall strategy as far as market development is concerned has been to create a stronger and more stable macroeconomic environment, strengthen oversight arrangements and adopt a more pragmatic and sequenced approach to deregulation and liberalisation. At the same time, structural reforms have been pursued with a long term view encompassing financial and corporate reforms as well as social and macroeconomic reforms.

In many ways, these enhancements and addressing the weaknesses noted from the Asian Financial Crisis provided a certain degree of resilience for the ASEAN countries when the Global Financial Crisis of 2008 hit the developed markets. The impact on the financial system of the countries within the region was fairly contained. The markets did not witness the same degree of displacements that had occurred in other global markets. But clearly the economic consequence of the global slowdown was felt in these markets.

Figure 2: Over the years, Asian countries have shown tremendous growth as reflected by their market capitalisation.



Source: World Federation of Exchanges

THE CASE FOR INTEGRATION

In the case of ASEAN, although significant efforts were made towards addressing weaknesses in several areas within the economy and financial markets, the phenomenal growth rates of China and India completely changed the competitive landscape for these countries. As shown in Figure 2, the increase in the market capitalisations of other markets simply dwarfed many of the markets in ASEAN, leading to a complete change in the investment flows. There was a clear recognition among policy makers that something had to be done to ensure that ASEAN remained relevant and important in attracting investment flows. This led to greater urgency towards economic integration, giving birth to a range of initiatives announced by the ASEAN leaders, economic ministers as well as finance ministers.

In a sense, the value proposition offered by ASEAN is obvious. It's a region with a strategic geographical footprint within the Asia-Pacific, diverse membership of developed countries, emerging markets and less developed countries. Its large population base offers a large consumer market accounting for almost 6% of global exports and 2% of global GDP. This is also boosted by its sustainable growth, posting GDP amounts of US\$ 1.2 trillion and doubling per capita income from US\$1 thousand to US\$2 thousand over the past decade. And underpinning this is a large pool of domestic savings in many of the countries in the region and a growing wealth base.

The lessons from the Asian Financial Crisis and even the current global financial crisis further reinforce the need to channel some of the region's savings towards productive investments within the region. ASEAN capital markets, for instance, are still individually small for the main part, and the range of products and openness within ASEAN remains low. Further, the markets remain relatively illiquid with high transactions costs and large equity premiums due to sub- scale trading volumes and largely closed markets through the capital account restrictions.

Unless ASEAN markets work together to collaborate and achieve parity with developed markets in terms of cost, liquidity, product range and technology investments, investors and issuers in the region will rely on the larger and more liquid markets outside ASEAN, thus making ASEAN less relevant. This threat of marginalisation has acted as a catalyst for greater capital market integration in ASEAN.

At present, cross-border holding of portfolio capital and other indicators, is still relatively low (see Table 1).

Table 1: Table on indicators of openness and integration in ASEAN (2005/6)

| Indicator | Spore | Msia | Indon | Thai | Phil | HK | Korea |
|--|-------|------|-------|------|------|----|-------|
| Non-resident holdings of equity as % of market cap | 44 | 17 | 73 | 34 | 61 | 36 | 40 |
| No of domestic companies listed abroad | 0 | 26* | 5 | 2 | 0 | na | na |
| No. of foreign listing | 267 | 4 | 0 | 0 | 2 | na | na |
| Equity holdings in ASEAN as % of total equity assets held abroad | 19 | 43 | 65 | 24 | 3 | 2 | 1 |
| Equity holdings of ASEAN investors as % of total non-resident bookings | 1.5 | 19 | 24 | 13 | 6 | 9 | 2 |

Source: Data provided by authorities and Centennial estimates* Data as at Mar 2009

Therefore, regional integration that allows for greater cross-border access to investors and issuers regionally and globally can help broaden the investor base and range of products, thereby strengthening domestic capital markets and provides the liquidity, scale and capacity to compete globally.

Further, regional integration can, by facilitating access to a larger pool of issuers, investors and financial services providers, build awareness of ASEAN as an asset class and enhance the attractiveness of the region for global capital flows.

Integration will have holistic benefits to all stakeholders, in that:

- There will be overall benefit to the country in terms of promoting and facilitating economic growth, enhancing the breadth and depth of the capital market and diversifying sources of financing, investment channels and investor base.
- For investors, capital market integration will lead to enhanced product and service innovation, and lower prices for financial services as competition lowers transactions costs and allows larger regional firms to exploit economies of scale and scope. Investors can also now diversify their investments to a greater extent than before.
- The integration of markets will allow the intermediaries to benefit from economies of scale and scope, leading to improved and more innovative services at lower prices, as well as from the opportunity to tap the larger pool of investors in ASEAN.
- For companies/issuers, harmonisation of standards can considerably reduce the administrative burden and costs by replacing many different sets of diverging rules with a single set. For e.g. the release of the ASEAN and Plus Standards on disclosure in October 2008 aims to promote the integration of the region's capital markets, facilitate greater efficiency in cross-border capital-raising and provide cost savings

to issuers making multi-jurisdiction offerings within ASEAN. Under the Scheme, issuers seeking to issue equity or debt securities in more than one ASEAN country will be required to prepare only one set of disclosure documents, with additional limited wrap-around for multi-jurisdiction offers.

- For governments and regulators, capital market integration will lead to a more efficient allocation of capital, arising from the fact that savings can flow more easily and at lower cost to investment and because barriers will have been dismantled. Through sequenced liberalisation and integration process, regulation of cross-border trades and investment will be strengthened and regulators are able to offer greater protection for investors. In addition, through harmonisation and mutual recognition agreements, ASEAN markets will be able to improve their regulatory standards by benchmarking with international standards and adopting best practices.
- Integration will also hasten the development of the less developed capital markets in the region as they are able to benefit from the experiences of the more developed ASEAN markets and accelerate their adoption of international standards.

There is therefore a strong case for ASEAN to step up its integration initiatives. Care has to be taken that regional integration is not an obstacle to the efforts of each individual market to develop themselves, and it must be done in a systematic and complimentary fashion so as to ensure that domestic and regional efforts progress efficiently and in tandem. Policy coordination efforts need to be enhanced and clear goal setting is required for the short, medium and long-term.

Having a clear roadmap was seen to be critical with established milestones and action parties providing a systematic approach to ensure efficient financial integration.

INTEGRATION EFFORTS

Integration for ASEAN, as articulated in the ACMF Implementation Plan, is facilitating more cross-border flows, opening markets to players from other ASEAN countries, and extending reach to a broader investor base. Unlike the European Union, where their approach to integration is focused on full harmonisation of domestic laws, regulations and operations in order to facilitate cross border access – the ASEAN approach is through a process of creating enabling-conditions for cross-border access.

ASEAN capital market regulators have tried to achieve this objective by focusing on mutual recognition and harmonisation as mechanisms to foster regional integration. Mutual recognition is pragmatic as it recognises and accommodates the differences in the regulatory framework of the respective countries, and allows access to another jurisdiction without having to also comply with another set of what is normally equivalent regulatory requirements and processes. This reduces regulatory burden and makes cross border participation more efficient.

Given that ASEAN capital markets are at different stages of development, rendering large differences in market practices, institutional development and regulatory standards, laws and process, an opt-in approach is proposed. This means that ASEAN countries which are ready will proceed first through bilateral arrangements based on an established set of guidelines or framework, while the other jurisdictions will undertake a more gradual approach and pursue integration initiatives as and when they are ready.

Another initiative to facilitate cross-border access is the establishment of ASEAN exchange linkages. The ASEAN exchanges are working towards creating an electronic trading link through a single access point (known as ASEAN Common Exchange (ACE) gateway) to facilitate cross-border trading of stocks listed on ASEAN exchanges. This will allow regional reach

without dis-intermediating local brokers. The key principle to the exchange linkages is to enhance ability to trade across markets and enhance overall trading liquidity in the respective markets. This is done with application of home rules and without disenfranchising domestic players. Therefore, the mutual recognition arrangements are expected to achieve some of the direct benefits of integration and provide investors a wider choice of products and services.

ASEAN's integration efforts commenced with the declaration of the ASEAN VISION 2020 in 1997. At that time, the vision focused on improving regional co-operation and socio-economic development. However, six years later in 2003, this vision was expanded through the Bali Concord II to establish the three pillars of ASEAN Communities; namely the ASEAN Economic Community, the ASEAN Security Community and the ASEAN Socio-cultural Community. In tandem with this, the goals for financial and capital market integration were established through the Roadmap on Monetary & Financial Integration of ASEAN (RIA-FIN), covering capital market development, financial services liberalisation, capital account liberalisation and currency cooperation.

This was followed by a decision at the 2006 Leaders' summit to bring forward the establishment of an ASEAN Economic Community to 2015 from 2020 and to transform ASEAN into a region with free movement of goods, services, investment, skilled labor and freer flow of capital. Accordingly the timelines for achieving the goals of the ASEAN roadmap on monetary and financial integration of ASEAN was also accelerated by five years (see Figure 3).

Figure 3: ASEAN Integration Efforts



At the Leaders' Summit in Singapore in November 2007, the leaders signed the declaration of the AEC Blueprint. The Blueprint calls for a single market and production base comprising: free flow of goods and services, free flow of investments, freer flow of capital and free flow of skilled labour. Working towards integration by 2015, the Blueprint provides principles and action areas for further liberalization of trade in financial services, for strengthening ASEAN Capital Market Development and Integration, and for promoting greater capital mobility. The Asean Capital Market Forum (ACMF) which was formed about four years ago in recognition of the increasing role of capital markets in ASEAN has played a key role in driving the capital market integration efforts. THE ACMF also began work towards formulating an Integration Plan for Capital Markets within the auspices of the AEC blueprint.

The Asian Finance Ministers Meeting endorsed the ACMF's proposal to develop an "Implementation Plan to promote the development of an integrated capital market to achieve the objectives of the AEC Blueprint" in April 2008 and then subsequently endorsed the actual plan in April 2009.

AEC 2015 BLUEPRINT

The AEC Blueprint 2015 seeks to achieve significant progress in building a regionally integrated market, enabling licensed persons to move freely within the ASEAN region, issuers being able to raise capital in other markets and investors investing anywhere

The AEC Blueprint adopts two strategic approaches:-

- Strengthening ASEAN capital markets through development and integration. This is achieved through greater harmonisation in offering standards, facilitating mutual recognition, allowing greater flexibility in language and laws in securities issuance, enhancing tax structures and facilitating market linkages
- Allowing greater capital mobility. This is achieved through liberalisation of capital movements, subject to having in place necessary safeguard mechanisms

These strategic approaches are centered on three dimensions, namely regulatory alignment and harmonization, integrated market infrastructure to facilitate connectivity and a regional financial products base.

REGULATORY ALIGNMENT AND HARMONISATION

Based on the observation of the Linkages Task Force , areas requiring further deliberation include regulation of special purpose vehicles, allowing the use of omnibus accounts for custody of exchange linked trades, prevention of cross-border market misconduct, disclosure of material information in a timely manner to investors of both exchanges, and non-discriminatory investor protection schemes and standards.

The Task Force has set out a few midterm targets to achieve the ASEAN interlinked market by 2010:

- Alignment of environments – regulatory and legal (trading, clearing, settlement and custody, market conduct, enforcement and disclosure), and market practices (settlement deadlines and periods, operational hours, corporate action processing rules)
- Address impediments and barriers such as capital controls
- Address cooperation and partnership issues such as technical assistance, technology and infrastructure

MARKET INFRASTRUCTURE TO FACILITATE CONNECTIVITY

The Task Force has initiated efforts to look into the following trading models:-

- Dual / cross listing of securities

Issue: Regulatory cost of listing due to disclosure and listing requirements of both exchanges

- Depository receipt instrument

Issue: When a company depository receipt is traded on a foreign exchange, the listed company needs to satisfy the disclosure and listing requirements of both exchanges – again, this could add to the regulatory cost

- Offshore trading

Issues: Issuers not subject to listing requirements of the foreign exchange and not therefore required to disclose information. Only need to comply with domestic requirements. Arrangements needed to allow dissemination, ease of access to information from corporate disclosures of the foreign issuers

In establishing cross border market access, factors for consideration include political climate, business factors, risks, legal and regulatory environment, and technology.

A REGIONAL PRODUCT BASE

Initiatives for promoting the integration and development of the regional markets have already been undertaken by promoting ASEAN as an asset class. The Asian Bond Fund (ABF)¹ initiative that was championed by the Executive Meeting of East Asia and Pacific Central Banks (EMEAP), was the starting point in enhancing the development of the bond market in the region and ultimately creating an integrated regional bond market. To date, Asia has played host to the successful launching of the exchange traded bond index funds and also establishing the Renminbi inter-bank bond markets which is open to foreign investors.

The other product worked was an ASEAN index launched in 2006 with FTSE and also subsequently an ASEAN exchange traded fund based on this index. The FTSE / ASEAN indices are a joint collaboration between FTSE and exchanges of ASEAN 5 countries. This initiative is the first collaborative effort amongst the exchanges under the ASEAN umbrella using FTSE's internationally recognised index design methodology. The FTSE / ASEAN indices are designed to represent the performance of the ASEAN markets. The series contains a benchmark and tradable index that is suitable for Exchange Traded Funds, derivatives and other tradable products. These indices are designed to give investors access to the ASEAN markets major emerging players in the global market place and present new opportunities. The FTSE ASEAN 40 index was subsequently used, in an effort to market ASEAN as an asset-class, in developing a USD-denominated Exchange Traded Fund (ETF) tracking the securities of the index. This ETF is currently listed on the Singapore Exchange (SGX).

Nevertheless, the existing product base is still wanting, with expansion in product diversity crucial. The ASEAN region needs to increase its efforts in terms of developing regional equity and derivative products, providing sophisticated hedging instruments within the region, growing collective investment schemes at regional level and developing the region as a destination / conduit for shariah compliant instruments and services.

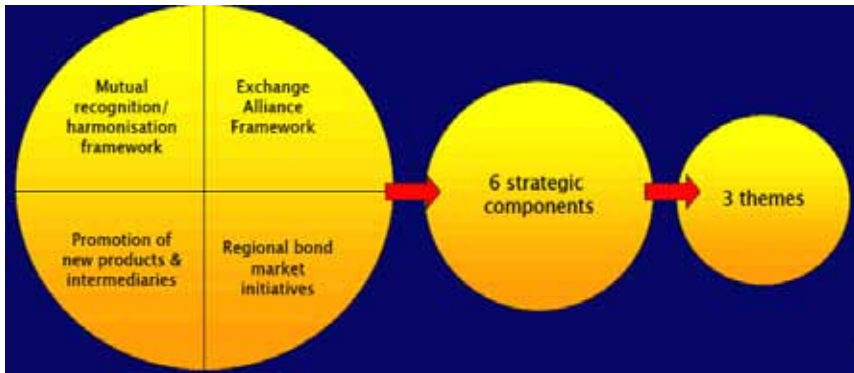
¹ ABF1 – the ABF1 is a closed-end fund launched in June 2003. US\$ 1 billion has been contributed by EMEAP central banks. The fund is managed by BIS. ABF2 – Launched in 2004. An open-ended fund which allows participation from private sector. US\$ 2 billion was contributed by EMEAP central banks.

Development of Implementation Plan

The endorsement of the Implementation Plan on April 2009 is viewed as a significant milestone in terms of promoting the development of an integrated capital market to achieve the objectives of the AEC Blueprint. The implementation plan comprises six strategic components, sub-categorised into three themes (see Figure 4).

The six strategic components in the Implementation Plan are:-

Figure 4: The Implementation Plan 2015 comprises six strategic components and three themes



- i. Mutual Recognition framework to facilitate:-
 - Cross border fund raising
 - Product distribution
 - Cross border investments within ASEAN
 - Market access by intermediaries
- ii. ASEAN exchange alliance and governance framework encompassing:-
 - Building trading linkages and setting up ASEAN Board
 - Enhance governance, trading efficiency and cost reduction
 - Clearing, depository and settlement linkage
 - Marketing and investor education
- iii. Promote new product and build ASEAN as an asset class via:-
 - Private sector led regional products development
 - ASEAN star companies under the ASEAN board
- iv. Strengthen bond markets by:-
 - Accelerating reform initiatives in bond issuance, listing and distribution
 - Designing a regional strategy for ratings comparability
 - Improving market liquidity and clearing & settlement of linkages

- v. Aligning domestic capital market development plans to support regional integration through:-
 - National development initiatives to support cross border integration
 - Adopting a phased approach to liberalisation to ensure domestic market readiness

- vi. Reinforcing ASEAN working process through:-
 - Establishing ASEAN Coordinating team, comprising dedicated resources from ASEAN Secretariat and dedicated point persons from ASEAN Capital Markets Forum members to monitor, coordinate, report and raise issues on the Implementation Plan

The aforementioned strategic components are expected to flow into the following three themes:-

- i. Creating an enabling environment for regional integration:-
 - Design and implement a mutual recognition/harmonisation framework of gradually expanding scope and country coverage

- ii. Creating the market infrastructure and regionally focused products and intermediaries:-
 - Implement an exchange alliance framework to facilitate cross-border trades with local brokers initially
 - Strengthen and harmonise exchange governance, listing rules and corporate governance framework
 - Promote new products and regionally active intermediaries to build awareness of ASEAN as an asset class
 - Reinforce and expedite implementation of ongoing strategies and initiatives to strengthen and integrate bond markets

- iii. Strengthening the Implementation Processes:-
 - Refine the strategies for domestic capital market development in each ASEAN country and incorporate measures and milestones that support regional integration initiatives
 - Strengthen the ASEAN level working mechanisms in order to better coordinate regional integration initiatives and monitor and support its implementation at the country level

ISSUES AND CHALLENGES TO INTEGRATION

The endorsement of the Implementation Plan formalises the first step towards capital market integration. However, there are still considerable challenges in the “how-to” part of the process to integrate ASEAN capital markets. For instance, further progress towards integration will require a convergence of national objectives with regional aspirations. The vast disparity in development, socio-economic and financial stability requirements suggests that policy objectives are likely to vary and that there is a need to accommodate economic diversity. On this note, some market players are of the view that domestic markets should be integrating with the rest of the world rather than within ASEAN.

As highlighted by Dr Surin Pitsuwan (ASEAN Secretary General):

“A new landscape is (ASEAN+3) is being developed with multi-centres - no longer dependent on the US or Western Europe. A healthy economic landscape post-crisis will need to be multi-polar and East Asia is on such candidate...” “ASEAN is about open and inclusive regionalism. We cannot close and create a fortress around ASEAN and turn it into our own cocoon of comfort.”

The value of regional integration and promoting ASEAN as an asset class remains unclear to some participants. This requires an effective communication plan to articulate the objectives and benefits of ASEAN capital market integration. Perceived costs and benefits differ significantly from country to country, in the extent of their national development plans include the measures to enable and benefit from greater integration. As such it is essential that regional initiatives be translated into country policies.

On the surface, the disparity within ASEAN is clear, as evident by the presence of capital controls and exchange restrictions, differences in tax regimes, uneven development and portfolio restrictions on institutional investors. Compounding matters further are the differences in product range, particularly the lack of derivatives markets or of regionally focused products in many jurisdictions. Notwithstanding that there are already large differences in regulatory regimes and market infrastructure – as reflected in the degree of observance of global supervisory and market standards. With such challenges ahead, integration efforts will require strong political will in order for desired outcomes to materialise.

The integration of capital markets also requires a high level of readiness in the form of institutions, sound regulatory frameworks and efficient market infrastructure. The diverse levels of development in the individual member countries therefore suggest that a “one-size-fits-all” or “big bang” approach may not be appropriate or feasible as the objectives may vary significantly from country to country. As such, integration in the ASEAN context does not mean a single financial market such as the European Union, but a process of creating enabling conditions for cross-border access whereby capital can move freely within the region, issuers are free to raise capital anywhere in region and investors can invest anywhere in the region.

There will be concerns and lobbying by domestic players that their domestic businesses will be displaced by integration. A timely reminder came from Sri Mulyani Indrawati (Indonesia’s Finance Minister), when he said that “In addition to overseas investors, a wide range of domestic players would also need to be given access to the integrated market.” There will therefore be a need for ASEAN policy makers to manage pressure from domestic lobbying, and the impact of displacement of domestic businesses as activity shifts towards centers of comparative advantage. In this regard, ASEAN capital market players must adopt a change in mindset and embrace integration as an opportunity to enhance and expand their businesses, compelling them to be more creative and innovative in their provision of services and creation of products.

There will certainly be trade-offs that each country will face in the short-term. However, for the longer-term future, integration will result in a bigger and more diversified market and pool of investors. There will also be differences in perceived cost and benefits towards integration. Some markets may take the view that they may be sizeable enough to not pursue integration, and to instead focus their efforts on building their own domestic capital markets. This may be true, especially for large countries like Indonesia. For countries like Malaysia, however, the market would benefit from greater liberalisation and to meet the challenges of international competition and globalisation.

To reiterate, it is crucial to have in place a sequential and phased approach to integration. This should be complemented by collective efforts from the government/regulators as well as the private sector. For instance, governments must ensure national economic policies that facilitate as well as deregulation and liberalisation. This must be complemented by private sector commitment for cross-border regional activities. Finally, there must be a transparent process of building consensus towards commonality of objectives. ■

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