

FINANCIAL INTEGRATION IN THE ASIA-PACIFIC

Amy Auster
Executive Director, ACFS

April 2016

'Financial Integration in the Asia-Pacific' Project Steering Committee:



What can we do together?



Framework for considering financial opening + integration

Financial connectedness → *Financial integration*

Mechanisms for financial integration

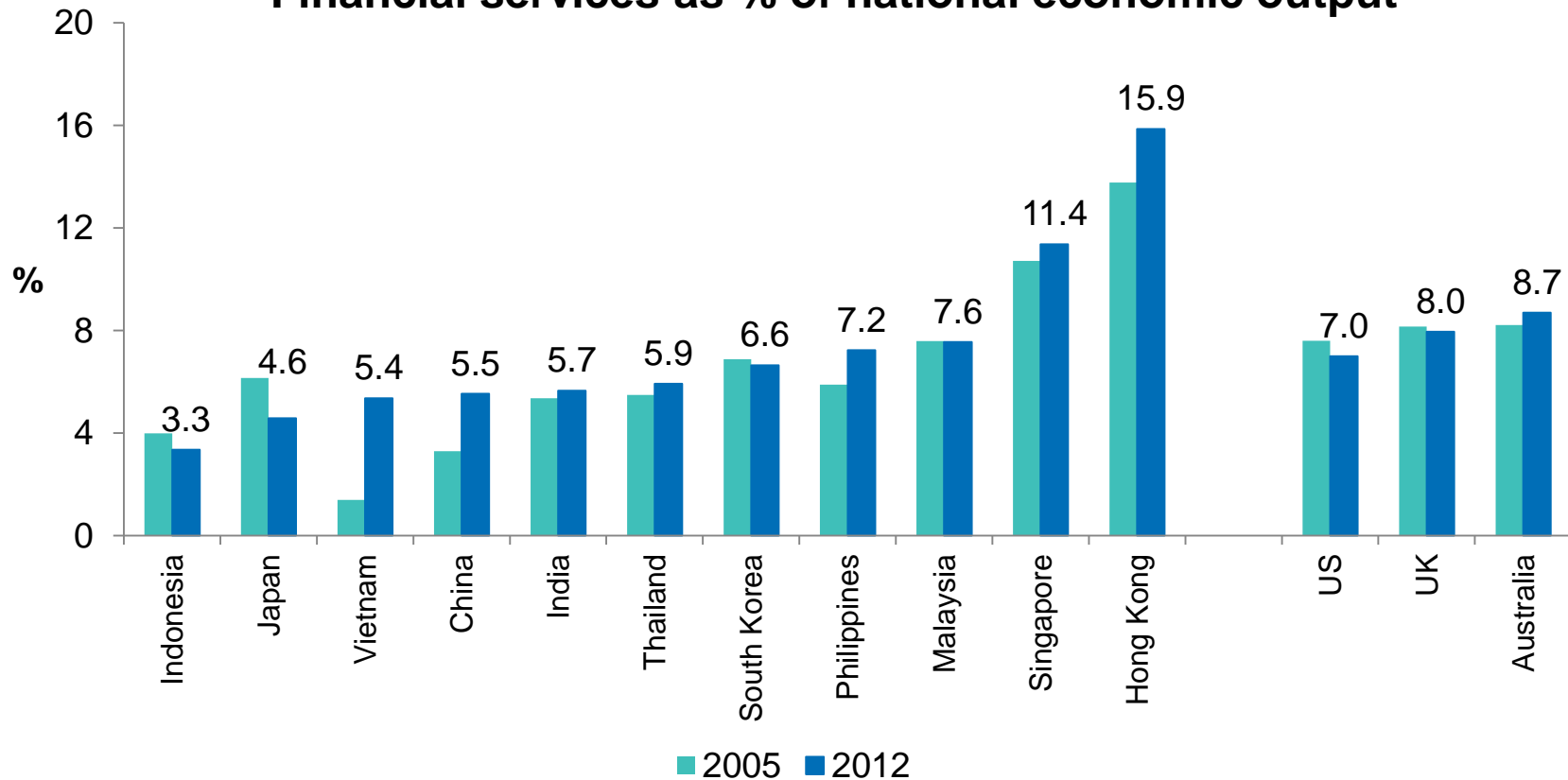
- Trade in financial services
- Cross border investment (capital account)

Measurement of financial integration

- De Jure – Comparison of legal or regulatory restrictions
- Qualitative – Size of Flows
- Quantitative – Law of One Price

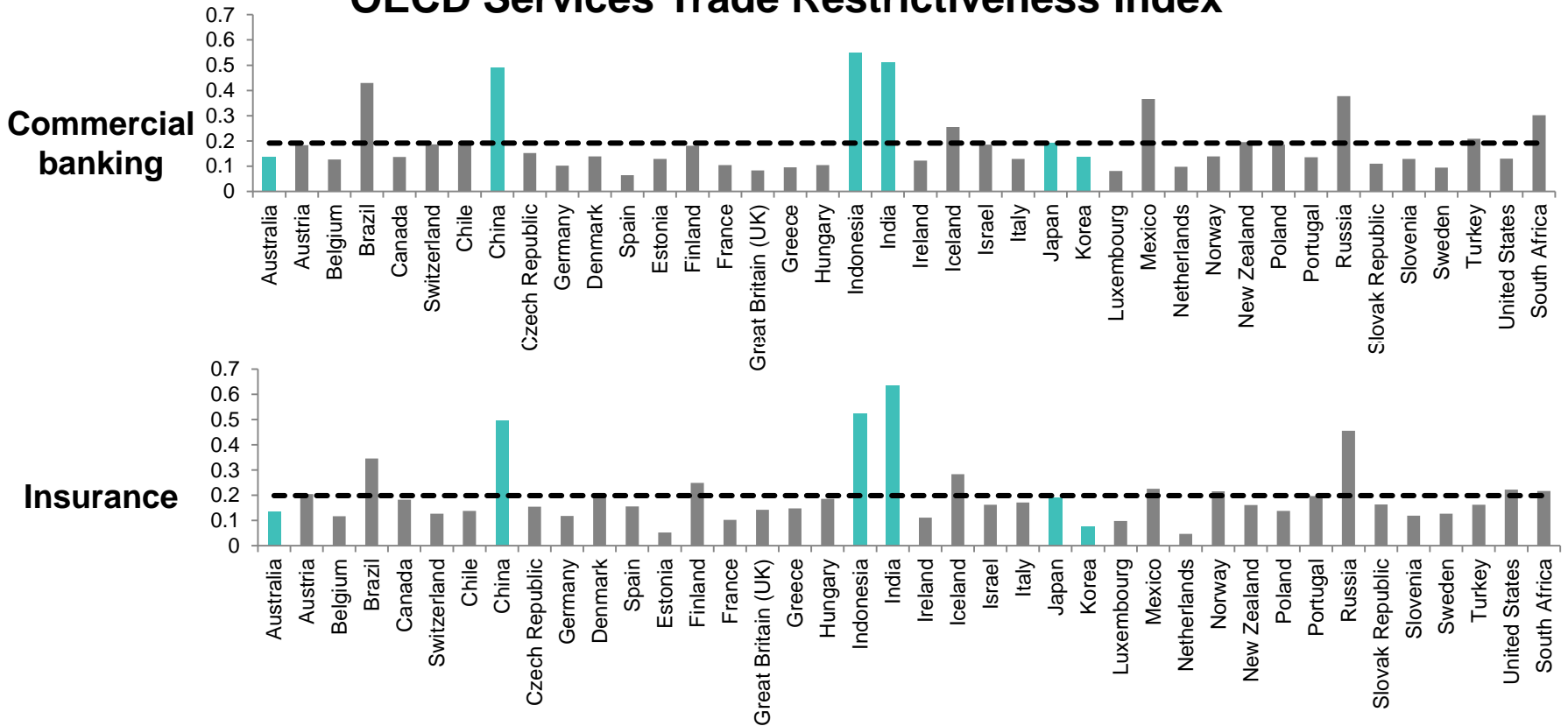
Financial services have been undersized in Asia but are growing faster than the economy

Financial services as % of national economic output



On *de jure* measures, major Asian economies have lowest degree of integration in the OECD

OECD Services Trade Restrictiveness Index

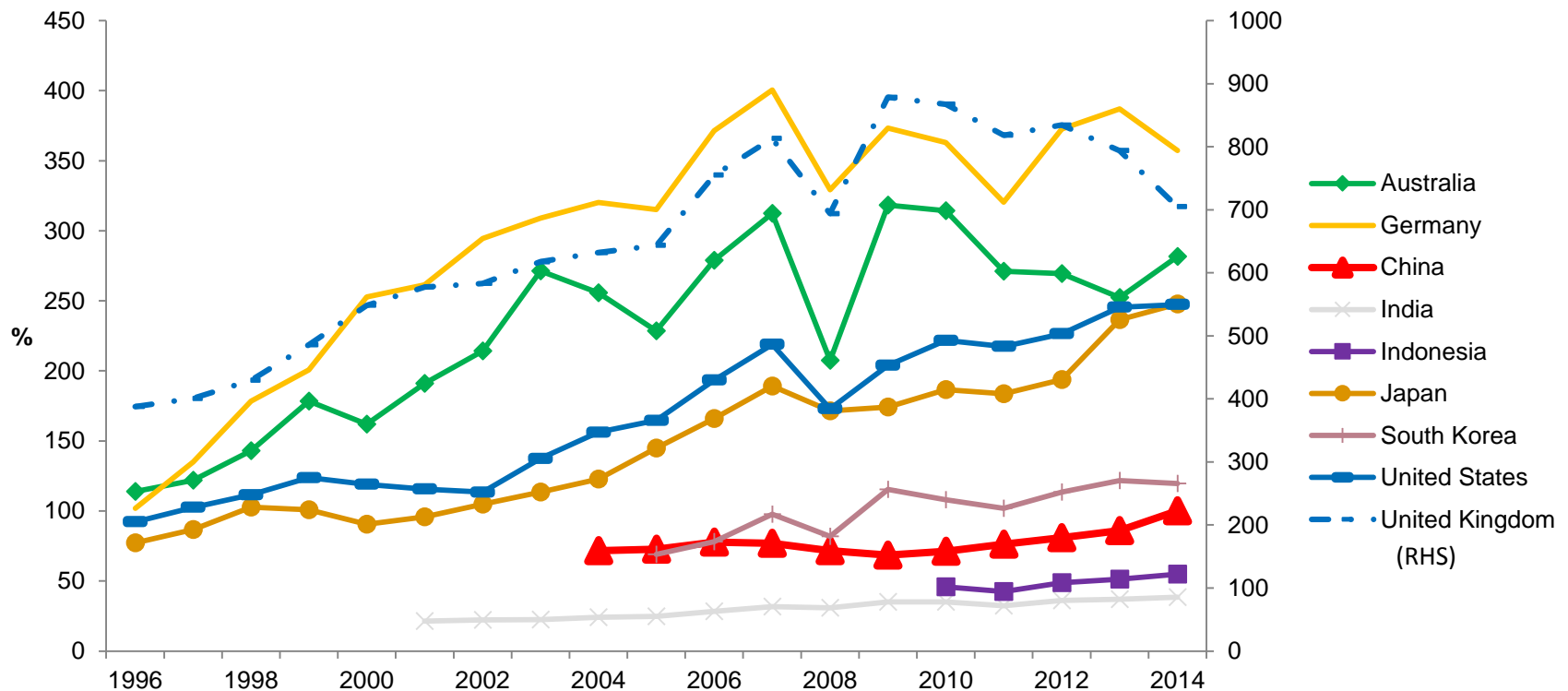


Source: OECD Services Trade Restrictiveness Index

On qualitative measures, rising flows but still low integration for some

External Stock* (Assets + Liabilities) as % of GDP

* includes Direct Investment, Portfolio Investment and Cross-Border Banking Claims

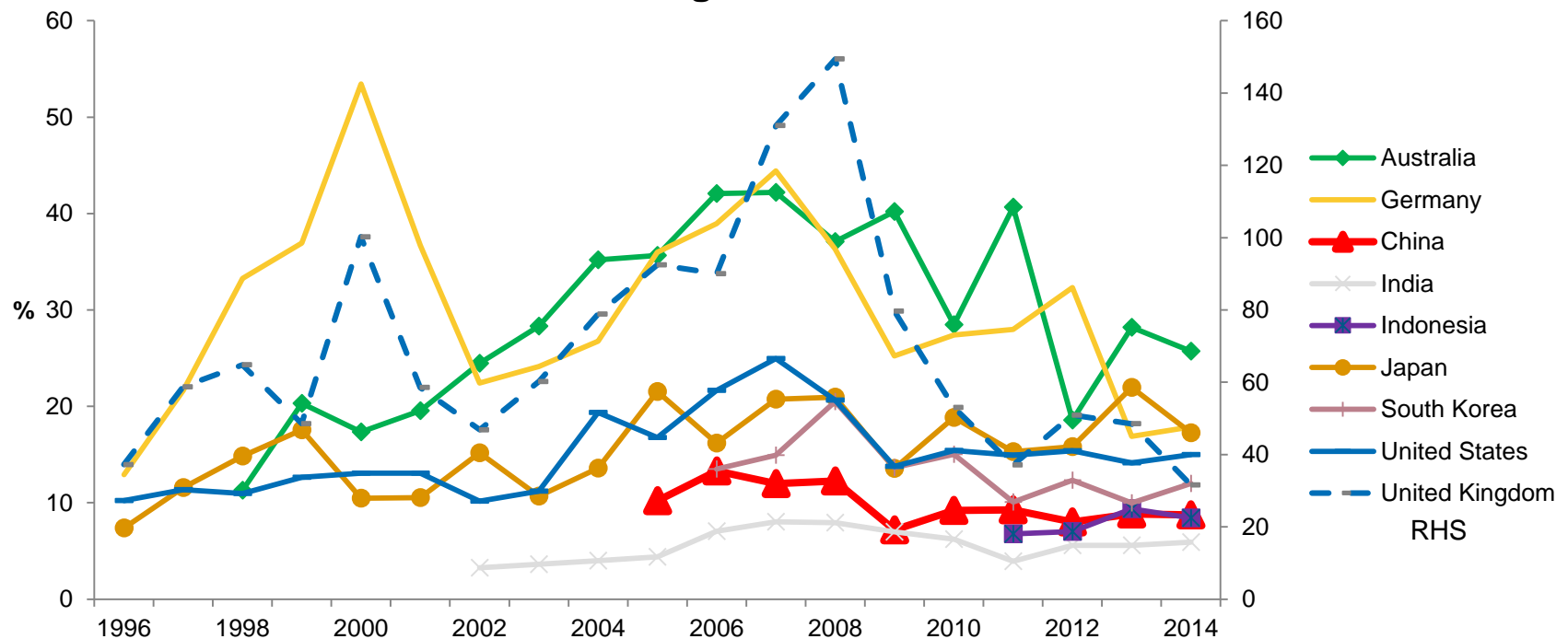


Source: IMF, BIS, Datastream, ACFS calculations

A cautious stance on opening is warranted given volatility of flows...

External Flows* (Inward + Outward) as % of GDP

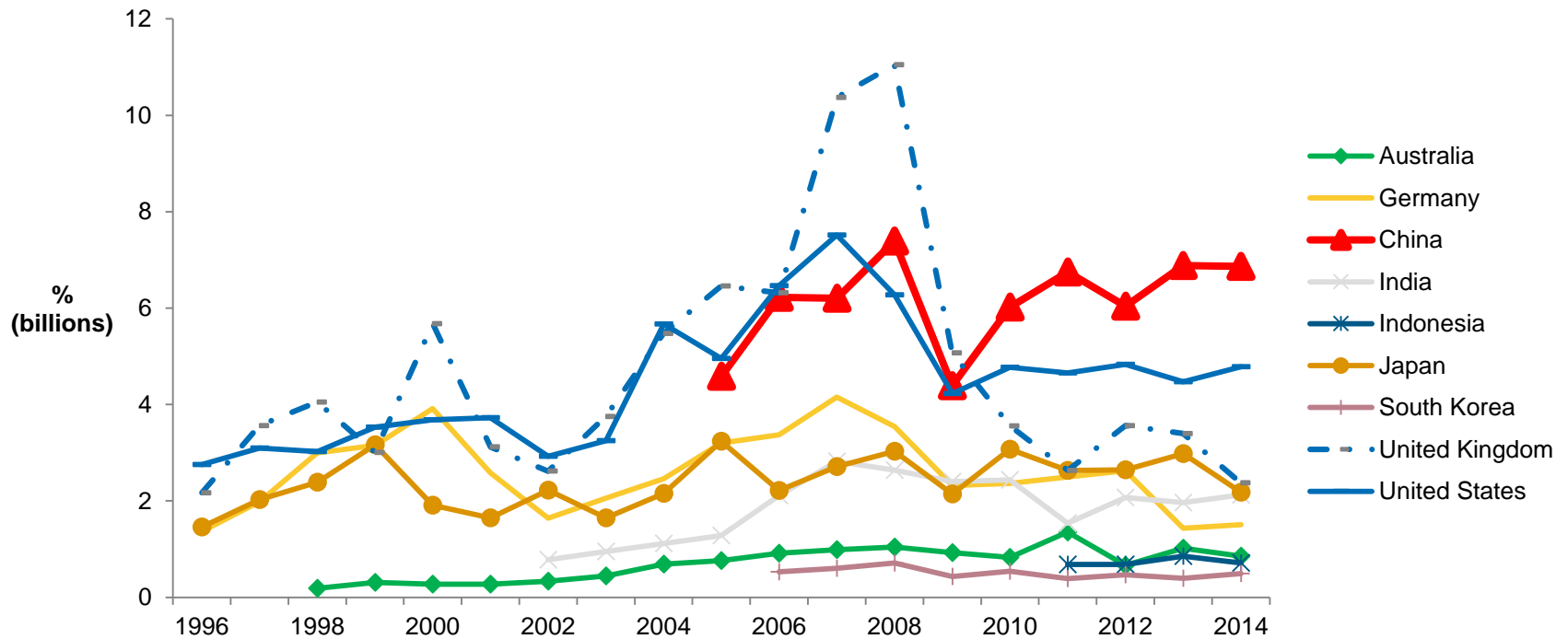
* includes Direct Investment, Portfolio Investment and Cross-Border Banking Claims



Source: IMF, BIS, Datastream, ACFS calculations

...Particularly in economies where households hold less wealth (on average)

External Flows* (Inward + Outward) as % of GDP Per Capita
 * includes Direct Investment, Portfolio Investment and Cross-Border Banking Claims



Source: IMF, BIS, Datastream, ACFS calculations

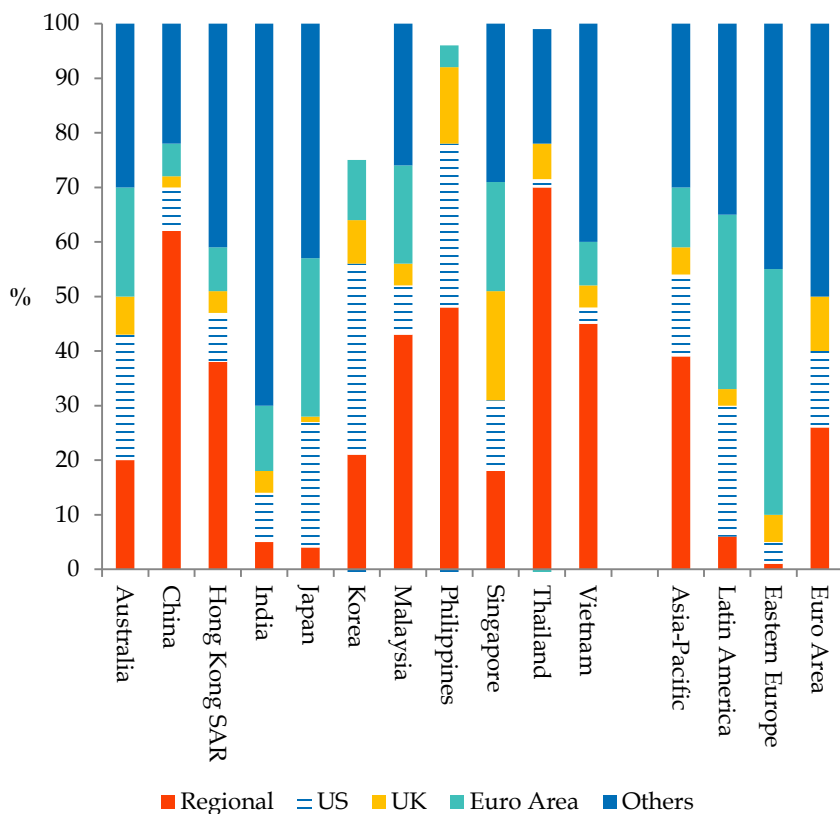
First glimpse of Chinese portfolio investment by destination

Outbound portfolio investment from China, Q2 2015, gross amount

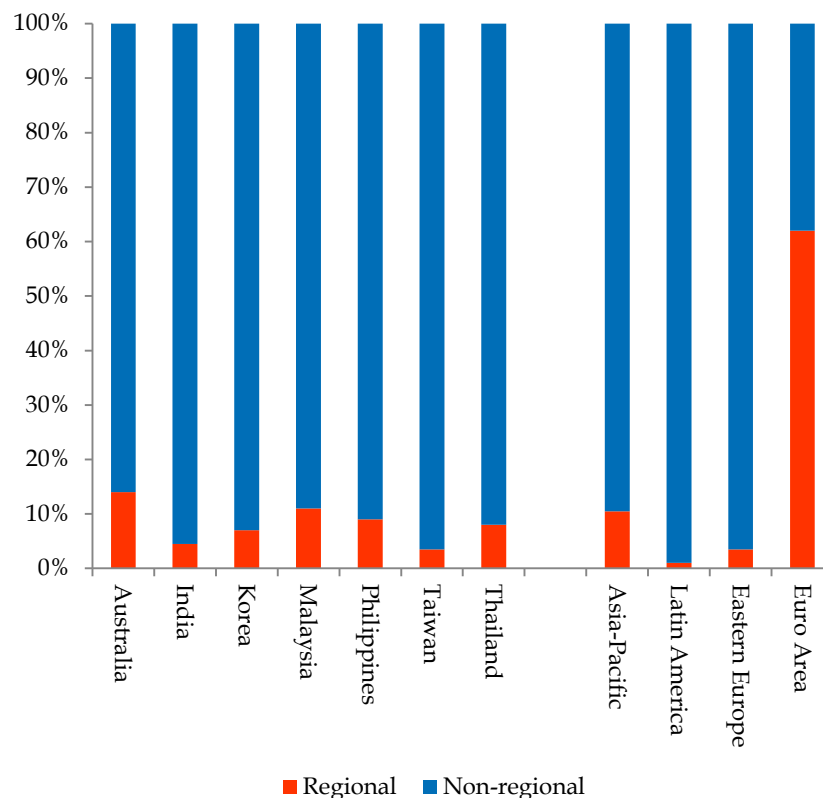
	Destination	Amount (US\$ bn)	Share of total (%)
1	United States	116.7	40.6
2	Hong Kong	49.5	17.2
3	Cayman Islands	16.3	5.7
4	Great Britain	13.0	4.5
5	Japan	12.4	4.3
6	Virgin Islands	11.3	3.9
7	Australia	6.5	2.3
8	France	5.0	1.8
9	Germany	4.8	1.7
10	Canada	4.5	1.6

Can deeper trade in financial services help Asia to keep more of its portfolio investment in the region?

Sources of FDI

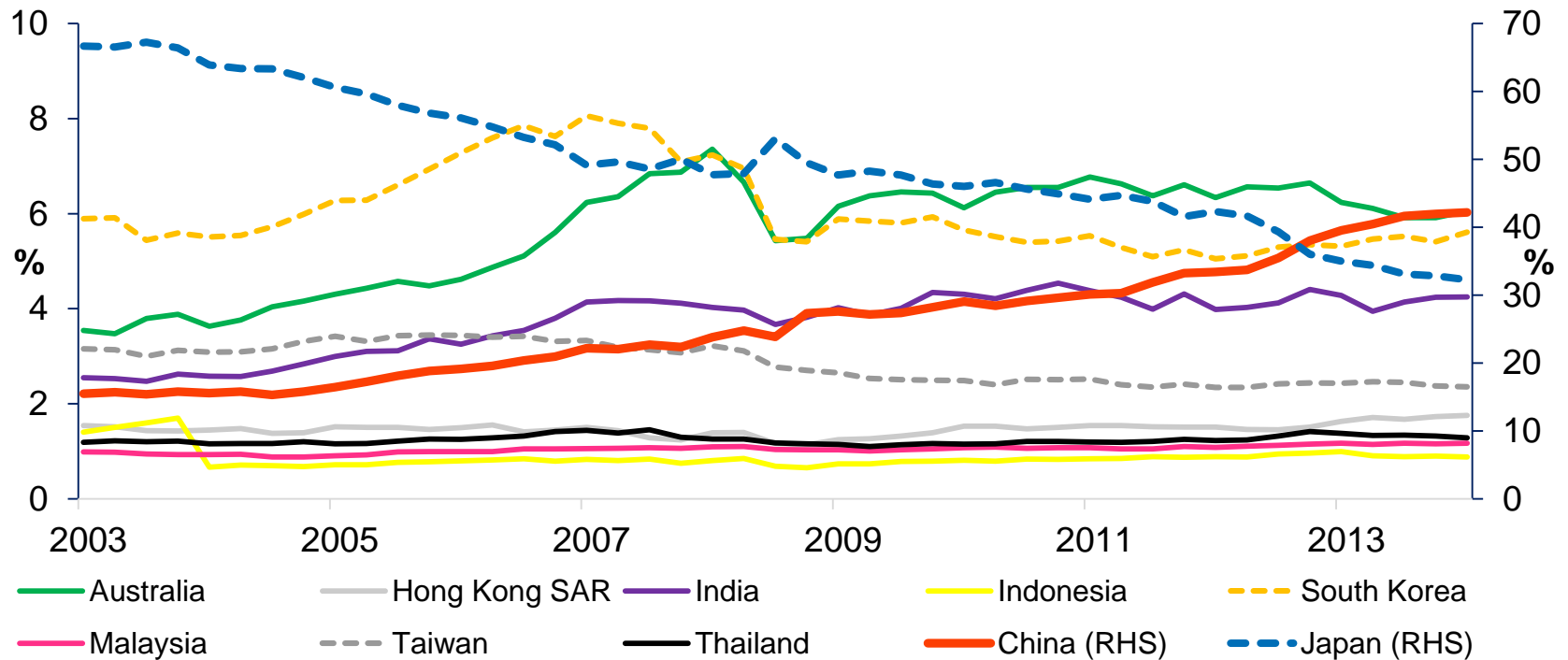


Sources of portfolio investment*



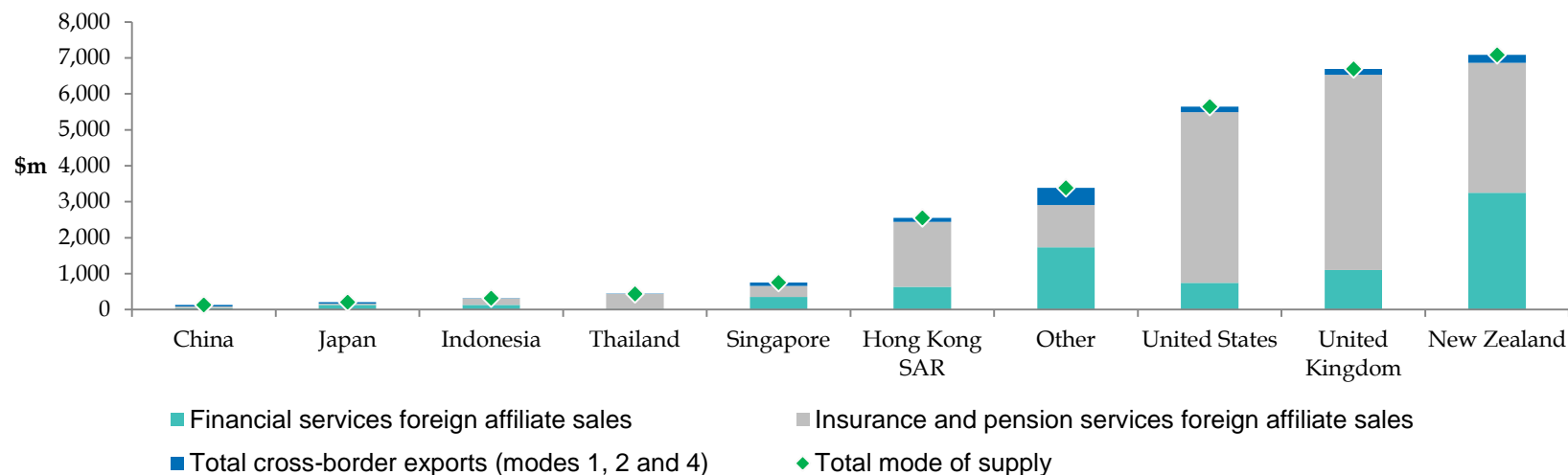
And help the large market in China smooth its transition...

Domestic credit as % of total Asia-Pacific credit



...While Australia re-orientes its focus?

Destination of Australian financial services exports by mode of supply, 2009-10



Gross foreign investment into and out of Australia by counterpart country

Partner country	Outbound		Inbound	
	Value (A\$ bn)	Share of total (%)	Value (A\$ bn)	Share of total (%)
United States	471.7	29	657.9	27
United Kingdom	255.7	16	562.9	23
New Zealand	81.1	5	n/a	n/a
Japan	50.2	3	131.0	5

THINK
BIG

